THE UNIVERSITY OF CHICAGO
FOUNDED BY JOHN D. ROCKEFELLER

HISTORY OF THE LEGAL-TENDER ACTS

A DISSERTATION

SUBMITTED TO THE FACULTY OF THE GRADUATE SCHOOL OF ARTS AND LITERATURE IN CANDIDACY FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

(DEPARTMENT OF POLITICAL ECONOMY)

BY
WESLEY CLAIR MITCHELL

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I. STATE OF THE FINANCES, MARCH, 1861

On the day after his inauguration President Lincoln sent to the Senate the nomination of Salmon P. Chase, of Ohio, as secretary of the treasury. Political considerations were of chief weight in determining this appointment. Mr. Lincoln perceived that the support of the various elements of which the young Republican party was compounded would be necessary to secure the success of his administration. So Seward, the recognized leader of the radical wing of the party, was made secretary of state; and Chase, the most prominent representative of the conservative wing composed of anti-slavery Democrats, became secretary of the treasury.[1]

In addition to political availability, Mr. Lincoln thought Chase possessed peculiar personal qualifications for the

[1] *Cf.* Nicolay and Hay, *Abraham Lincoln, A History* (New York, 1890), Vol. III, p. 354.

position. True, his thirty years' connection with the Cincinnati bar, and the term in the Senate and two terms as governor of Ohio, that constituted his experience of public affairs, had brought him little familiarity with fiscal questions. But they had shown that he had a clear intellect, administrative ability, and untiring industry. And, above all, they had given him a name for strict integrity that would be of especial weight in gaining the public confidence indispensable to success in the management of the then discredited treasury. Though Mr. Chase brought with him little knowledge of financial administration, his mind was deeply impressed with certain financial theories. From his former Democratic affiliations he had imbibed the "hard-money" principles of Jackson and Benton and their dislike for paper currencies. Personal observation of the unsound methods of banking then prevalent in the western states had strengthened these convictions and inspired in him an indiscriminating distrust of the issues of all banks whatsoever. The early suspension of specie payments and issue of an irredeemable currency of legal tender paper in the Civil War occurred, then, under the administration of a secretary of the treasury who cherished a strong predilection for metallic money.[1]

It was with great reluctance that Mr. Chase resigned his seat in the Senate to undertake the arduous task of managing the treasury in the face of threatening war.[2] The diffi-

[1] Three considerable biographies of Chase have been published, one by ROBERT B. WARDEN, *An Account of the Private Life and Public Services of Salmon Portland Chase*, Cincinnati, 1874; 8vo, pp. xxiii + 838 (valuable chiefly for copious extracts from Mr. Chase's private papers); the second by J. W. SCHUCKERS, *Life and Public Services of S. P. Chase*, New York, 1874; 8vo, pp. xv + 669; the third by PROFESSOR A. B. HART, *Salmon Portland Chase* ("American Statesmen" Series), Boston and New York, 1899; 8vo, pp. xi + 465. See also HUGH MCCULLOCH, *Men and Measures of Half a Century* (New York, 1888), chap. xvi, and W. M. EVARTS, *Eulogy on Chase*, appended to SCHUCKERS'S *Life*.

[2] *Cf.* Chase's letter to the governor of Ohio, SCHUCKERS, *op. cit.*, p. 207, and letter of F. A. Conkling to E. G. Spaulding, October 17, 1875, in SPAULDING, *History of the Legal Tender Paper Money Issued during the Great Rebellion*, 2d ed. (Buffalo, 1875), Appendix, p. 84.

culties of his position were increased by the disorganized condition in which the federal finances had been left by the preceding administration. When Mr. Buchanan was inaugurated his secretary of the treasury, Howell Cobb, of Georgia, found himself embarrassed by a redundant revenue, to reduce which Congress had just passed the tariff act of March, 1857, lowering the duties upon imports. Unfortunately the financial crisis of 1857 and the commencement of the Mormon troubles followed hard upon the date when the new tariff took effect; the one, in conjunction with the new tariff, decreased the treasury receipts from customs by a quarter, the other increased the expenses of the War Department. So, instead of a surplus the fiscal year 1858 presented a deficit in the revenue.[1]

To meet the shortage Congress authorized the issue of $20,000,000 of one-year treasury notes.[2] As the deficit recurred the next year, a fifteen-year loan of $20,000,000 was made;[3] and in March, 1859, when the one-year treasury notes began to fall due, it was necessary to extend their term to July, 1860.[4] Even by that time the financial situation had not improved sufficiently to enable the government to pay the notes out of revenue, and another loan of $21,000,000 had to be authorized to procure the necessary funds.[5]

Early in September, 1860, Secretary Cobb invited bids for $10,000,000 of this loan, a sum sufficient to meet the notes coming due before January, 1861. When the bids were opened, October 22, it was found that the whole sum had been taken at par or at a small premium. Payment of the subscriptions was to be made thirty days later. But in

[1] *Report of the Secretary of the Treasury*, December, 1858, pp. 3, 4.

[2] Act of December 23, 1857, 11 *Statutes at Large*, p. 257.

[3] Act of June 14, 1858, *ibid.*, p. 365.

[4] Act of March 3, 1859, *ibid.*, p. 430.

[5] Act of June 22, 1860, 12 *Statutes at Large*, p. 79.

November Mr. Lincoln's election was followed by threats of secession from the southern press. A sudden business revulsion resulted, for everyone was anxious to prepare his affairs for the coming storm.[1] The subscribers to the loan were timid and embarrassed. To encourage them, Cobb offered an additional thirty days for making payments to all who would deposit one-half of their bids on the appointed day. Though most of the bidders accepted the offer, some preferred to forfeit the 1 per cent. deposits sent in with the bids rather than to take the bonds. From the $10,000,000 offered the treasury realized only $7,022,000.[2]

Convinced by this ill-success that an attempt to negotiate the remaining $11,000,000 of the loan would fail, Cobb requested Congress to substitute treasury notes for the bonds and to pledge the public lands unconditionally for their redemption. Further, he asked authority for a new loan of $10,000,000 to supply the deficit in the revenues due to the contraction of business.[3] Six days after sending this report to Congress Cobb resigned, giving as his reason that Georgia required his services.[4] Going home, he entered the campaign to persuade his state to secede, and a little later became vice-president of the Confederacy.

President Buchanan appointed as Cobb's successor Philip F. Thomas, of Maryland. Despite the change in secretaries, Congress acted on the second of Cobb's recommendations by authorizing the issue of $10,000,000 of one-year treasury notes at par to those bidders who would accept the lowest rates of interest.[5] The day after the act was approved,

1 *Report of the Secretary of the Treasury*, December, 1860, p. 7; *cf.* W. G. SUMNER, *A History of American Currency* (New York, 1875), p. 189.

2 *Report of the Secretary of the Treasury*, December, 1860, pp. 8, 9, and 480–83; *Senate Executive Document No. 2*, p. 11, 37th Cong., 1st Sess.

3 *Report of the Secretary of the Treasury*, December, 1860, p. 9.

4 E. MCPHERSON, *Political History of the Rebellion*, 4th ed. (Washington, 1882), p. 28.

5 Act of December 17, 1860, 12 *Statutes at Large*, p. 121.

Thomas invited proposals for one-half of this loan. The response showed how low the national credit had sunk; $1,831,000 was offered at 12 per cent. or less; $465,000 more at rates between 15 and 36 per cent. All offers at 12 per cent. or under were accepted.[1]

To explain why the government was compelled to pay such high rates of interest is not difficult. Public confidence in the Buchanan administration was shaken; particularly, confidence in the management of the Treasury Department which for four years had been contracting debts to meet annually recurring deficits. The check to business following the election in November had intensified the uneasiness. One secretary of the treasury had resigned to aid the secession movement; his successor was distrusted as a southern sympathizer. South Carolina had already adopted the ordinance of secession; other states were on the eve of following her example. At Washington there was disorganization and indecision. Under such circumstances it was natural that there should be hesitation in New York about lending to the government.

But the needs of the government were imperative. The full amount of the five millions offered was required to meet the treasury notes and interest on the debt due January 1. Foreseeing the failure of the public subscription, Mr. Cisco, the head of the subtreasury at New York, induced the New York banks to take at 12 per cent. interest whatever part of the $5,000,000 might not be bid for. Their offer was accepted by Secretary Thomas.[2] After the banks had paid a part of the money into the treasury they became convinced that Thomas intended "to transfer the money into the confederate region where it would be captured." Accordingly, they withheld payment of the

[1] *H. R. Miscellaneous Document No. 20*, p. 3, 36th Cong., 2d Sess.

[2] *Ibid., loc. cit.*

next instalment and sent representatives to confer with Mr. Buchanan.[1] The result was that Thomas resigned, ostensibly because he could not agree with the president "in the measures . . . . adopted in reference to the . . . . condition of things in South Carolina."[2] He was succeeded January 11 by General John A. Dix—a man who commanded the full confidence of the North—and the balance of the loan was paid.

Dix found the treasury empty, $350,000 of unpaid warrants accumulated, and a deficit in the revenue which was expected to reach nearly $27,000,000 by the end of June.[3] To meet immediate requirements he offered the remaining half of the $10,000,000 treasury-note loan authorized the preceding December. An improvement in the credit of the government was indicated by the fact that whereas 12 per cent. interest had been paid for the first $5,000,000, the second was borrowed at an average rate of $10\frac{5}{8}$ per cent.[4]

But the sum thus realized did not last long and further borrowing became necessary. Judging from Cobb's failure that it would be impossible to negotiate the balance of the $21,000,000 loan of June 22, 1860, under the terms of the law which forbade the sale of stock below par, Dix applied to Congress to authorize a new bond issue. He even suggested calling on the states to return the $28,000,000 of surplus revenue deposited with them in 1836.[5] Congress, however, would only pass a $25,000,000 loan act.[6] Dix then urged

1 Correspondence between Mr. George S. Coe, one of the bankers concerned, and E. G. Spaulding, in H. KING, *Turning on the Light* (Philadelphia, 1895), pp. 186–9.

2 Letter of resignation, G. T. CURTIS, *Life of James Buchanan* (New York, 1883), Vol. II, p. 404.

3 *Cf.* Dix's letter to the chairman of the Committee on Ways and Means, *H. R. Miscellaneous Document No. 20*, 36th Cong., 2d Sess.

4 *Cf.* J. J. KNOX, *United States Notes*, 2d ed. (London, 1885), p. 76.

5 *H. R. Miscellaneous Document No. 20*, p. 6, 36th Cong., 2d Sess.

6 Act of February 8, 1861, 12 *Statutes at Large*, p. 129. The bonds were to bear 6 per cent. interest and "to be reimbursed within a period not beyond twenty years and not less than ten years."—Sec. 2.

that the states be permitted to add the pledge of their faith to that of the federal government for the repayment of the loan; but the House refused to consider a bill for this purpose.[1] Nevertheless, when bids for $8,000,000 of the new loan were invited in February, the whole sum was subscribed on terms that made the average rate of interest 6.63 per cent., indicating a further improvement in the national credit.[2]

Such small loans, however, could afford but temporary relief. The real difficulty was the insufficient revenue. To stop the necessity of borrowing by increasing the treasury receipts was the nominal purpose of the last important law passed during the Buchanan administration. Bills to raise duties on imports had been presented at every session of Congress since 1858; but all had failed of adoption, until, shortly before the presidential election of 1860, the Morrill tariff act passed the House. It was not taken up by the Senate until the following session, and even then its progress for a time was blocked. But finally, after many of the southern senators had left Washington, it was passed and became a law two days before the close of Mr. Buchanan's term.[3]

As a revenue measure the new schedule was foredoomed to failure. The heaviest duties were levied on articles largely produced in the United States; sugar and molasses were lightly taxed, while coffee, tea, and wool worth less than 18 cents per pound, were entirely free. Revenue was thus sacrificed to protection. During the quarter, January-March, the customs receipts were $9,800,000; in the succeeding three

[1] *Congressional Globe*, 36th Cong., 2d Sess., pp. 871, 872.

[2] Bids were received for $14,460,250 at the rates ranging from 75 to 96.10. Of these bids $8,006,000 were accepted, all below 90.15 being refused.—*Senate Executive Document No. 2*, pp. 19–30, 37th Cong., 1st Sess. The average rate was 90.478.—BAYLEY, *National Loans of the United States*, p. 151.

[3] Act of March 2, 1861, 12 *Statutes at Large*, p. 178. *Cf.* F. W. TAUSSIG, *Tariff History of the United States*, 2d ed. (New York, 1893), p. 158. Sec. 1 of the act authorized a loan of $10,000,000.

months, when the new tariff was in effect, they were $5,500,000—a decrease of over 40 per cent.[1] Thus, instead of improving the position of the treasury, the new tariff served only to increase the financial embarrassment.[2]

II. CHASE'S ADMINISTRATION OF THE TREASURY, MARCH TO JUNE, 1861

It was at a time, then, when the revenue of the government was insufficient to pay its expenses even on a peace footing, and when distrust and frequent borrowing had much impaired its credit, that Mr. Chase, with small experience of financial operations, undertook to raise the means for waging a most expensive war. From April to June the ordinary receipts of the treasury were $5,800,000, its expenditures $23,500,000.[3] To fill the deficit there was but one recourse—borrowing. Disadvantageous as were the terms on which the recent loans had been made, it was to a new loan that Mr. Chase was forced to resort.

On the whole, he was in a more favorable position for borrowing than Cobb, Thomas, or Dix had been. True, the political situation had become more grave. Mississippi, Florida, Alabama, Georgia, Louisiana, and Texas had followed South Carolina's example in seceding from the Union, and when the new administration was installed at Washington it saw itself confronted by a rival government in Montgomery. But to offset this, Buchanan, who had become thoroughly discredited in the North, had given place to

[1] *Report of the Secretary of the Treasury*, December, 1861, p. 30.

[2] On the condition of the finances at the commencement of the Civil War, *cf.* R. J. WALKER, *American Finances and Resources* (London, 1864); VON HOCK, *Die Finanzen und die Finanzgeschichte der Vereinigten Staaten* (Stuttgart, 1867), pp. 437-40; M. B. FIELD, *Memories of Many Men and of Some Women* (London, 1874), pp. 250-52; JOHN SHERMAN, *Recollections of Forty Years in the House, Senate and Cabinet* (Chicago, 1895), Vol. I, pp. 251-4; KNOX, *op. cit.*, pp. 70-83; J. G. BLAINE, *Twenty Years of Congress* (Norwich, Conn., 1884), Vol. I, pp. 396-401; A. S. BOLLES, *Financial History of the United States from 1861 to 1885* (New York, 1886), pp. 4-6.

[3] *Report of the Secretary of the Treasury*, December, 1861, pp. 30-32.

Lincoln, in whom the people reposed greater confidence. In raising his first loan Mr. Chase had the benefit of this feeling. Moreover, the credit of the government was improved by a temporary increase of revenue. The Morrill tariff act, approved March 2, was to go into operation April 1. Importers took advantage of the intervening thirty days to pass their goods through the custom-houses as rapidly as possible in order to escape payment of the higher duties imposed by the new schedule, thus increasing the receipts from customs for the months of February and March.[1]

Under the existing laws the secretary had authority to borrow some $41,000,000. (1) Of the $21,000,000 loan of June 22, 1860, Cobb had negotiated $7,022,000, leaving a balance of $13,978,000 which could be issued in 6 per cent. twenty-year bonds — a resource available under the law, however, only when the bonds could be sold at par. (2) The two $5,000,000 treasury-note loans raised by Secretaries Thomas and Dix had exhausted the authority to borrow under the act of December 17, 1860 ; but (3) Dix had issued only $8,006,000 of the $25,000,000 of 6 per cent. stock provided for by the act of February 8, 1861. The disposal of the remainder of this stock — $16,994,000 — was not hampered by the customary provision forbidding sales below par. (4) Finally, the opening sections of the Morrill tariff act authorized a loan of $10,000,000 upon 6 per cent. ten-twenty-year bonds at par, or upon 6 per cent. treasury notes ; but the proceeds of this loan could not be applied to the service of the current fiscal year which would end June 30, 1861. However, this act made the authority to borrow, existing under other laws, more available, by permitting the president "to substitute treasury notes of equal amount for the whole or any part of any of the loans for which he is now by law authorized to

[1] *Cf. American Annual Cyclopœdia*, 1861, p. 296, and *Hunt's Merchants' Magazine*, Vol. XLIV, p. 666.

contract and issue bonds." The treasury notes so issued were to bear interest at 6 per cent., be receivable for government dues, convertible at par into 6 per cent. bonds, and could be made redeemable at any time within two years; but, like the bonds, they could not be issued to creditors or sold for coin at less than par.[1]

Mr. Chase began by advertising, on March 22, $8,000,000 of the 6 per cent. stock which, under the act of February 8, could be sold to the highest bidder.[2] Ten days were allowed for making proposals. When the bids were opened, April 2, it was found that the loan had been subscribed three times over at rates ranging from 85 to par.[3] This indicated an encouraging improvement in the credit of the government, for the offers for an equal amount of the same stocks made to General Dix less than two months before varied from 75 to 96.10 and amounted to $14,460,250, as compared with $27,182,000. But Mr. Chase thought the treasury notes, which he had authority to issue in lieu of the bonds, could be sold at better prices.[4] Consequently he accepted only the bids at 94 and above, amounting to $3,099,000, and on April 6 invited bids for the balance—$4,901,000—in treasury notes.[5] Unfortunately, the departure of the expedition to relieve Fort Sumter became known in the meantime. The news created much uneasiness, and when the bids were opened April 11, but one-fifth of the sum had been taken. Financiers who were interested in the success of the loan procured a delay, however,

[1] Act of March 2, 1861, Sec. 4, 12 *Statutes at Large*, p. 178. On Chase's authority to borrow, see his report of July 4, 1861, *Senate Executive Document No. 2*, p. 11, 37th Cong., 1st Sess.

[2] *Senate Executive Document No. 2*, p. 31, 37th Cong., 1st Sess.

[3] Schedule of bids, *ibid.*, pp. 32-49.

[4] Since the treasury notes bore 6 per cent. interest and were receivable for all government dues, large importers derived a profit from investing in them the money held in readiness for the payment of customs duties. *Cf. American Annual Cyclopœdia*, 1861, p. 297.

[5] *Senate Executive Document No. 2*, pp. 11 and 50, 37th Cong., 1st Sess.

and by dint of their efforts subscriptions were secured for $5,340,000, of which sum $2,500,000 were taken by a single New York bank.[1]

The means thus provided were soon exhausted by the large government disbursements, and it became necessary to borrow again. On May 11 the balance of the 6 per cent. stock of the February loan—$8,994,000—was advertised for sale.[2] Bids came in very slowly, and a failure of the subscription seemed probable. Such an event would have seriously affected the price of all government securities. In self-defense, the Chamber of Commerce of New York and the banks of New York and Boston came to the aid of the treasury. A card was issued signed among others by J. J. Astor, August Belmont, James Gallatin, A. T. Stewart, Moses Taylor, and George S. Coe, calling attention to the government loans and inviting "all capitalists and moneyed institutions to avail themselves of these opportunities for investment."[3] To give the committees appointed by the chamber and the banks more time to secure subscriptions, Mr. Chase postponed the opening of the bids four days, and also offered to consider bids for treasury notes at par in place of bonds, should that form of security be preferred by any subscriber.[4] Finally, bids ranging from 60 to 93 were obtained for $7,441,000 of the stock, and bids at par for $1,684,000 of the treasury notes. All the latter bids were accepted, and of the former all those at 85 or above—an amount of $7,310,000.[5] From this loan of $8,994,000 the treasury realized the sum of $7,922,553.45.[6]

[1] *Ibid.*, p. 51. Of course only $4,901,000 of the bids—the amount advertised—were accepted. The treasury realized $7,814,809.80 from $8,000,000 of securities sold. —*Ibid.*, p. 11. See *American Annual Cyclopædia*, 1861, p. 296, on the difficulty experienced in negotiating the treasury notes.

[2] *Senate Executive Document No. 2*, p. 52, 37th Cong., 1st Sess.

[3] *American Annual Cyclopædia*, 1861, p. 297; *cf.* "Federal Finances Examined" (anon.), *Hunt's Merchants' Magazine*, Vol. XLVII, p. 504; and *ibid.*, Vol. XLIV, p. 791.

[4] *Senate Executive Document No. 2*, p. 53, 37th Cong., 1st Sess.

[5] *Ibid.*, pp. 58 and 60.

[6] *Ibid.*, p. 11.

Requiring still more money, the secretary asked for proposals for the balance of the 6 per cent. twenty-year loan of June 22, 1860, amounting to $13,978,000.[1] As 6 per cent. government bonds could then be bought in the market at 84, the offer of this stock which the act forbade to be sold below par was a mere formality; but, by advertising the bonds, Mr. Chase complied with the terms of the law, and was enabled to issue treasury notes for the full sum.[2] Three bids, aggregating $12,000, were received; but they had been made under misapprehension and were withdrawn.[3] On account of this loan, however, Mr. Chase issued, by the end of June, $2,584,550 in treasury notes at par.[4]

Finally, just before Congress met, the treasury was again in need. Five million dollars were required to carry it along until new means of securing funds could be devised. As the two-year treasury notes were selling at a discount of 2 to 2½ per cent., they were not directly available. But the banks agreed to advance the amount required for sixty days and take 6 per cent. treasury notes as collateral security.[5]

Two points in this review of the operations of the secretary of the treasury from March to July are of significance:

1. When hostilities opened the federal government was receiving less than a quarter of its revenue from taxation; for the remaining three-quarters it was depending upon hand-to-mouth borrowing.[6] From March 7, 1861, when Mr. Chase was installed, to July 1, there had been an addition of $14,412,529.40 to the public debt.[7]

[1] *Senate Executive Document No. 2*, 37th Cong., 1st Sess., p. 11.

[2] *Cf. Appleton's Annual Cyclopædia*, 1861, p. 297.

[3] *Senate Executive Document No. 2*, p. 11, 37th Cong., 1st Sess.

[4] Of this sum $1,710,650 was sold for coin, and $873,900 was paid to creditors.—*Ibid.*, pp. 60–62.

[5] *Cf. American Annual Cyclopædia*, 1861, p. 297; and *Hunt's Merchants' Magazine*, Vol. XLVII, p. 505.

[6] From April to June, 1861, the receipts from customs, sales of public land, and miscellaneous sources, were $5,800,000, from loans $17,600,000.—*Report of the Secretary of the Treasury*, December, 1861, p. 30.

[7] *Senate Executive Document No. 2*, p. 18, 37th Cong., 1st. Sess.

2. Mr. Chase had of his own accord inaugurated the policy of issuing interest-bearing treasury notes running one or two years, in preference to long-time bonds, whenever they would fetch a higher price, disregarding the fact that such a course exposed the treasury to the danger of being called upon to redeem its notes while hard pressed for funds to meet current demands.[1]

III. FINANCIAL LEGISLATION OF THE EXTRA SESSION OF CONGRESS

Such was the situation when Congress convened in extra session July 4. Emphasizing the need of extraordinary measures, President Lincoln's message recommended that "at least 400,000 men and $400,000,000" be placed "at the control of the government."[2] The financial program of the administration was outlined in a report submitted by Secretary Chase.[3]

It was estimated that the government would require $320,000,000 to meet the expenditures of the coming twelve months. Of this sum the secretary thought that "not less than $80,000,000 should be provided by taxation, and that $240,000,000 should be sought through loans." The $80,000,000 would defray the expenses of a peace footing, estimated at $66,000,000, the interest on the public debt, $9,000,000, and provide an annual sinking fund of $5,000,000. By revising the Morrill tariff, Chase thought the customs could be made to yield a revenue of $57,000,000. An additional $3,000,000 from sales of public lands would leave $20,000,000 of the $80,000,000 to be raised by direct tax or by internal duties as Congress might decide.

To secure $240,000,000 by borrowing new loans to the

[1] Mr. James Gallatin, president of the Gallatin Bank of New York, advised strongly against this policy. See his *Two Letters to the Hon. S. P. Chase*, etc., New York, 1861.

[2] *Lincoln's Complete Works*, ed. NICOLAY AND HAY, Vol. II, p. 60.

[3] *Senate Executive Document No. 2*, 37th Cong., 1st Sess.

full amount would be necessary; for the $21,393,450 which the secretary still had authority to borrow under existing laws [1] was available only when creditors were willing to accept payment in 6 per cent. treasury notes at par, which, Mr. Chase admitted, was "not to be expected." He suggested (1) a national loan of $100,000,000 in 7.3 per cent. treasury notes, running three years; (2) a loan of like amount in 7 per cent., thirty-year bonds; (3) the issue of not over $50,000,000 of 3.65 per cent. one-year treasury notes to meet any need unprovided for by the proceeds of taxation and the other loans. But, said Mr. Chase, "the greatest care will . . . . be requisite to prevent the degradation of such issues into an irredeemable paper currency, than which no more certainly fatal expedient for impoverishing the masses and discrediting the government of any country can well be devised." [2]

If Secretary Chase erred in thus proposing at the outset to rely upon borrowing to secure three-quarters of the means for waging the war because he doubted the readiness of the people to submit to heavy taxation, Congress was neither wiser nor bolder than he. With his report were submitted drafts of bills embodying its suggestions.[3] After one hour's debate, entirely taken up by Mr. Vallandigham in an attack upon the policy of the president, the House passed the $250,000,000 loan bill by a vote of 150 to 5.[4] In the Senate a few verbal amendments were made;[5] these were quickly concurred in by the House,[6] and eight days after its introduction the bill was approved by the president.[7]

[1] The issue of $2,584,550 treasury notes under the act of June 22, 1860 (p. 12, above), had reduced the balance of that loan remaining to be borrowed to $11,393,450. Besides this there was the $10,000,000 loan authorized by the act of March 2, 1861. —*Senate Executive Document No. 2*, p. 12, 37th Cong., 1st Sess.

[2] *Ibid.*, p. 14.

[3] *Ibid.*, pp. 65 ff. and 71 ff.

[4] *Congressional Globe*, 37th Cong., 1st Sess., p. 61.

[5] *Ibid.*, pp. 109 and 127.

[6] *Ibid.*, p. 147.

[7] 12 *Statutes at Large*, p. 259. Act of July 17, 1861.

So hurriedly, indeed, was the work done that a supplementary act had immediately to be passed.[1] Together, these two laws authorized the secretary to borrow $250,000,000,[2] for which he could issue in such proportions as he might deem advisable, (1) 7 per cent. twenty-year bonds at par; (2) 6 per cent. twenty-year bonds "at any rate not less than the equivalent of par for the bonds bearing 7 per centum interest;" (3) 7.3 per cent. three-year treasury notes, fundable in 6 per. cent. twenty-year bonds; or (4) treasury notes, either bearing interest at 3.65 per cent. and payable in one year, or bearing no interest and payable on demand. These demand notes were to be receivable for all public dues and of denominations as low as $5; but their issues were not to exceed $50,000,000. Finally, 6 per cent. treasury notes, "payable at any time not exceeding twelve months from date," might be issued to the amount of $20,000,000. To facilitate the negotiation of the loan, it was provided that any part, not above $100,000,000, might be borrowed abroad, and the principal and interest made payable in Europe; and that the secretary might "deposit any of the moneys obtained on any of the loans . . . . in such solvent specie-paying banks as he may select."

Legislative indorsement was also promptly given to Secretary Chase's suggestion of increased taxation. August 5 a revenue act was approved which (1) raised the tariff by

[1] *Ibid.*, p. 313. Act of August 5, 1861.

[2] The amount of securities, however, that might be issued under these acts was not definitely limited; for Sec. 1 of the act of August 5 provided that holders of the three-year 7.30 notes might exchange them for 6 per cent. twenty-year bonds. —12 *Statutes at Large*, p. 313. The total issues under the acts were as follows:

6 per cent. bonds - - - - - -	$189,321,350
Demand treasury notes, no interest -	60,030,000
7.30 treasury notes - - - - -	139,999,750
	$389,351,100

R. A. BAYLEY, *National Loans of the United States*, p. 78. Of the 6 per cent. bonds only $50,000,000 was sold for money; the remainder, $139,321,350, was issued in exchange for 7.30 notes.—*Ibid.*, p. 153.

imposing duties on tea, coffee, sugar, and molasses — important revenue articles admitted free or at low rates by the Morrill act;[1] (2) apportioned between the states a direct tax of $20,000,000, of which, however, there was small hope of collecting the quotas of the disloyal states, amounting to $5,000,000; (3) levied a tax of 3 per cent. upon the excess of incomes above $800.[2] While certain features of this scheme of taxation encountered opposition, members of Congress evinced a striking readiness to waive objections and vote for any bill that the administration and the leaders of the houses held to be a "war necessity."[3]

The striking feature of the plan of finance thus recommended at the commencement of the war by the secretary of the treasury, and adopted by Congress, was the reliance upon borrowing to meet all the extraordinary military and naval expenditures. The taxes imposed were expected to yield revenue sufficient only to defray the ordinary expenses of government, to pay interest on the public debt, and to provide a small sinking fund. Nothing shows more forcibly the inadequacy of this policy than the quickness with which the necessity for increased taxation made itself apparent. The heavy expenses of the months following the adjournment of the extra session begot a general conviction that a firmer foundation for the financial operations of the government was indispensable. When Congress reassembled in December it was met by a strong popular demand for a vigorous tax policy. "The country presents," said the Boston *Advertiser*, "the spectacle of a people praying to be taxed."[4] An examination of the newspapers of the time shows how

[1] *Cf.* "Comparative Rates of Duty, 1842-61," *Hunt's Merchants' Magazine*, Vol. XLV, pp. 506, 507.

[2] 12 *Statutes at Large*, p. 292.

[3] As examples of this disposition see the remarks of Senators McDougall, of California, and Wilkinson, of Minnesota.— *Congressional Globe*, 37th Cong., 1st Sess., p. 399.

[4] February 4, 1862.

literally this was true.[1] Urged forward by public opinion, the same Congress that had in August deemed $80,000,000 a sufficient revenue to raise by taxation, resolved in January with but six dissenting votes in both branches, to levy taxes that would "secure an annual revenue of not less than $150,000,000."[2] Mr. Chase, also, took a firmer stand, advocating in his report of December, 1861, an increase of the customs duties on tea, coffee, and sugar, and direct taxation aggregating $50,000,000.[3] With increasing experience his appreciation of the "great importance" of raising the "largest possible amount" of revenue by taxation became keener. "It is hardly too much," he declared to Congress in 1863, "perhaps hardly enough, to say that every dollar raised [by taxation] for extraordinary expenditures or reduction of debt is worth two in the increased value of national securities."[4] In the same report he explained his failure to recommend heavy taxation to the extra session of Congress in July, 1861, by pleading the impossibility of foreseeing at that time the magnitude and length of the war.[5]

IV. THE $150,000,000 BANK LOAN

While these bills were pending in Congress and before the resources provided by them could be availed of, it was necessary to provide funds for the immediate wants of the

[1] *Cf.* New York *Times*, June 20 and July 23, 1861, and January 13, 1862; New York *Herald*, December 31, 1861, and January 7, 8, and 9, 1862; New York *Tribune*, June 26, 1861, and February 3, 1862; New York *Commercial Advertiser*, January 3, 11, and February 26, 1862; Springfield (Mass.) *Republican*, January 7, 15, and 21, 1862; Boston *Daily Advertiser*, January 11, 13, and 24, 1862; Boston *Journal*, January 8, 1862; Boston *Post*, January 28, 1862; Philadelphia *Press*, January 18 and February 5, 1862; *National Intelligencer* (Washington), January 11, 1862. *Cf.* the letters urging heavy taxation received by the Ways and Means Committee, SPAULDING, *op. cit.*, pp. 23, 24; Speech, ROSCOE CONKLING, *Congressional Globe*, 37th Cong., 2d Sess., p. 633; "Memorial of the New York Chamber of Commerce," *Senate Miscellaneous Document No. 95*, 37th Cong., 2d Sess., and EDWARD EVERETT in *Atlantic Monthly*, March, 1862, Vol. IX, pp. 393–7.

[2] *Congressional Globe*, 37th Cong., 2d Sess., pp. 344, 349, 376.

[3] *Report of the Secretary of the Treasury*, December, 1861, pp. 13 and 15.

[4] *Ibid.*, 1863, p. 12.

[5] *Ibid.*, p. 10. *Cf.* chap. ii, p. 72, below.

treasury. Mr. Chase accomplished this by issuing "for payment to public creditors or for advances of cash," $14,-000,000 in two-year 6 per cent. treasury notes, and $13,-000,000 in 6 per cent. notes running but 60 days.[1]

This, however, was but a temporary makeshift and the more serious task remained of providing for the regular and continuous expenses of the war. For this purpose the secretary at once set about negotiating a large loan under the ample powers conferred upon him by the extra session of Congress. Borrowing abroad was out of the question; for European capitalists were unwilling to lend.[2] Reliance upon a popular loan seemed hazardous, not only because of the ill success of recent ventures, but also because the market for bonds was stocked with the securities of several states which were negotiating war loans.[3] Circumstances seemed, then, to indicate the banks as the most available source from which to obtain means.

Fortunately the course of events had been such as to render the banks, at least in the northern Atlantic states, unusually strong. In the previous November the sudden panic following Mr. Lincoln's election had caused the banks to curtail discounts. A severe pressure for money followed and a suspension of specie payments was averted in New York only by the combination of bank reserves and the

[1] *Report of the Secretary of the Treasury*, December, 1861, p. 8. These issues were made in accordance with the acts of June 22, 1860 (12 *Statutes at Large*, p. 79), and March 2, 1861 (*ibid.*, p. 178).

[2] "It is utterly out of the question, in our judgment," said the London *Economist* of August 24, 1861, "that the Americans can obtain, either at home or in Europe, anything like the extravagant sums they are asking for. Europe won't lend them; America cannot."—*Economist*, 1861, pp. 927, 928. *Cf.* BLAINE, *Twenty Years of Congress*, Vol. I, pp. 409, 410.

[3] New York and Pennsylvania had authorized loans of $3,000,000 each; Connecticut, New Jersey, Indiana and Ohio loans of $2,000,000; Massachusetts, Maine, Illinois, and New York city had each offered loans of $1,000,000, Iowa of $800,000, Michigan of $500,000, and Rhode Island of $100,000.—*Bankers' Magazine* (New York), Vol. XVI, "Notes on the Money Market," and APPLETON'S *American Annual Cyclopædia* for 1861, pp. 297, 307, 308.

issue of clearing-house certificates.[1] But most of the paper held by the banks was good; liquidation proceeded favorably and the threatened danger passed. The acute pressure was followed by general stagnation. In the unsettled state of the country there was a general disposition to avoid new undertakings and to keep old ones on a most conservative basis. The result was that the banks could make no new loans.[2]

During the winter difficulty was experienced in making collections in the southern states. In the spring many firms resorted to intentional failures to rid themselves of northern obligations,[3] and in May a law was enacted directing that such debts should be paid, not to the creditors, but into the Confederate treasury.[4] The cessation of remittances from the South caused in May and June a series of failures affecting especially large jobbing houses.[5] But, owing to the very conservative nature of the business that had been done in the preceding half year, the crash did not become

[1] *Bankers' Magazine* (New York), Vol. XV, p. 500; *Hunt's Merchants' Magazine*, Vol. XLIV, pp. 75–92, 196, and 327; SUMNER, *History of American Currency*, New York, 1875, p. 189; DUNBAR, *Chapters on the Theory and History of Banking*, New York, 1891, pp. 68–73. The Boston banks rejected the use of clearing-house certificates, but allowed 50 per cent. of balances at the clearing house to be paid in a bank's own notes.—DUNBAR, *op. cit.*, p. 79; *cf.* "Report of the Massachusetts Bank Commissioners," *Executive Document No. 25*, pp. 48–50, 37th Cong., 3d Sess.

[2] "Inactivity, or increasing stagnation," wrote Mr. James Gallatin to Chase in March, "is the characteristic of our business affairs."—*Two Letters to the Honorable S. P. Chase* (New York, 1861), p. 5; *cf. Hunt's Merchants' Magazine*, Vol. XLIV, pp. 787 ff.

[3] *Hunt's Merchants' Magazine*, Vol. XLVI, p. 316; *American Annual Cyclopœdia*, 1861, p. 313.

[4] See text of the act in *American Annual Cyclopœdia*, 1861, p. 310; J. C. SCHWAB, *The Confederate States of America* (New York, 1901), p. 113.

[5] *Hunt's Merchants' Magazine*, Vol. XLV, p. 105. The indebtedness of the South to the North was estimated on the basis of R. G. Dun & Company's annual circular for 1861 at $300,000,000.—*Ibid.*, Vol. XLVI, p. 317. The losses of northern creditors were usually reckoned at $200,000,000. *Cf.* "Report of the Massachusetts Bank Commissioners," October, 1861; *Executive Document No. 25*, p. 50, 37th Cong., 3d Sess.; New York *Tribune*, September 18, 1861; President's Message, December 3, 1861, in *A. Lincoln, Complete Works*, ed. NICOLAY AND HAY, Vol. II, p. 99. Schwab considers this estimate exaggerated, *op. cit.*, p. 111.

general. It had the effect, however, of making the times yet more dull; the transactions of the New York clearing house declined from $129,000,000 in the second week of March, to $80,000,000 in the corresponding week of August.[1] The banks were not seriously weakened by the failures,[2] but found it still more difficult to lend their capital. From December, 1860, to August, 1861, bank loans in New York diminished $23,000,000; in Boston the fall from January to July was $2,000,000 and in Philadelphia $3,000,000.[3]

This decrease of loans was accompanied by a slight decline in circulation, a more decided increase in deposits, and a marked gain in the amount of specie held. Small imports — due partly to the Morrill tariff, but chiefly to the depression of trade — and heavy exports of grain — the result of good crops at home and poor crops abroad — combined to turn the balance of payment toward the United States.[4] During the spring and summer months sterling exchange sold from two to three points below par in New York.[5] Not only was the usual drain of specie to Europe stopped, but the current was kept flowing in this direction, so that, though the receipts from California declined and considerable amounts were sent into the interior, specie accumulated in the vaults of the New York banks to an unprece-

[1] See table of clearings in *H. R. Executive Document No. 25*, p. 107, 37th Cong., 3d Sess.

[2] The Massachusetts commissioners stated in October that the losses of the Boston banks by the repudiation of southern debts would not exceed in amount the undivided profits on hand.—*Executive Document No. 25*, p. 50, 37th Cong., 3d Sess.

[3] See table, p. 30, below.

[4] So large was the exportation of breadstuffs during the summer and autumn of 1861 that it more than offset the effect of the blockade in decreasing shipments of cotton. The movement is somewhat concealed by the usual statements of commerce by years ending June 30; but appears clearly in the official table of imports and exports of merchandise at the port of New York by months. From January to April imports exceeded exports, but from May to December there was an excess of exports, amounting to five million dollars in June, two in July, two in August, four in September, five in October, six in November, and six in December.—See tables in *Hunt's Merchants' Magazine*, Vol. XLVI, pp. 277-81.

[5] *Bankers' Magazine* (New York), Vol. XVI, p. 736.

dented degree. August 17 the ratio of the specie held by the associated banks of New York to their deposits and circulation was 50 per cent.; for Boston it was 27, and for Philadelphia 39 per cent.[1] Thus the banks were unusually strong; but they were making little profit because the stagnation of trade gave them few opportunities of lending to business men.

Consequently, when Mr. Chase appealed to them to assist the government, the banks were both able and willing to render efficient aid. A conference of representatives of the New York, Boston, and Philadelphia banks,[2] held August 10–17 in New York, at the secretary's invitation, drew up in consultation with him a "plan for assisting the United States government."[3] Fifty million dollars was to be advanced to the treasury by the associated banks of the three cities. In return they were to receive at par a like amount of treasury notes running three years and bearing interest at 7.30 per cent. Further, the banks were given the option of taking a second $50,000,000 of the notes on the same terms October 15, and a third $50,000,000 December 15.[4] Mr. Chase considered the plan highly advantageous to the government. In the face of war he was borrowing money at "a rate of interest only 1.3 per cent. higher than the ordinary rate of 6 per cent." Besides he received $50,000,000 immediately to meet the pressing

[1] See table, p. 30, below.

[2] "It was greatly desired," said one of the most prominent of the New York bankers, "to include also the banks of the West, but it was found impracticable to secure the co-operation of the state banks of Ohio and Indiana; and the state banks of Missouri, the only other organization under a compacted system, were surrounded by combatants."—Letter of George S. Coe to E. G. Spaulding, October 8, 1875, SPAULDING, *op. cit.*, Appendix, p. 90.

[3] *Report of the Secretary of the Treasury*, December, 1861, pp. 8, 9. A detailed account of the conference is given by A. S. BOLLES in *Lippincott's Monthly Magazine*, Vol. XXXVIII, pp. 200–206; reprinted in *Bankers' Magazine*, Vol. XLI, pp. 363–7.

[4] For text of this agreement see *Bankers' Magazine* (New York), Vol. XVI, pp. 162, 163.

demands upon the treasury.[1] To the banks the plan offered profitable employment for their idle capital.[2]

The banks which thus undertook to lend the government $150,000,000 in four months' time had an aggregate capital of but $120,000,000. Although unusually strong in specie at the time the agreement was made, their combined coin reserves amounted only to $63,200,000.[3] This sum would hardly more than pay the first instalment of the loan. To prevent its being exhausted at the very beginning, it was necessary that the banks should be able to replace very rapidly the specie which they paid to the government. They counted on doing this in two ways: First, they would sell the securities received from the goverment to the public for cash. It was part of the agreement that the treasury should help in this by opening public subscriptions to the loan in all parts of the country. Second, the specie given to the government would be speedily paid out again in disbursements for the immense purchases of war supplies. The coin would thus be restored to the channels of trade, and naturally flow again into the banks.

If the banks could collect specie in these two ways as rapidly as they paid it out to the government, they could continue to supply the treasury with funds indefinitely. But the moment even a brief delay occurred in the return of specie to the banks trouble would come. The reserves would be depleted by the drafts of the treasury, and suspension would be inevitable. Such a delay would happen if anything occurred to make the public slow in buying the

[1] Chase's letter to Trowbridge, WARDEN, *op. cit.*, pp. 386–8.

[2] At first the banks decided to divide the $50,000,000 among themselves in proportion to their respective capitals. This would have given the fifty-four New York banks $29,500,000, the forty-six Boston banks $15,500,000, and the nineteen Philadelphia banks $5,000,000. But the Boston banks finally decided that they could not take more than $10,000,000; so that the New York institutions had to make up their subscriptions to $35,000,000.—*Hunt's Merchants' Magazine*, Vol. XLV. p. 331.

[3] See table, p. 30, below.

7.30 treasury notes from the banks, or to interrupt the government's payments of specie out of the subtreasury, or to prevent men from depositing again in the banks the coin received from the government. The situation, both of the banks and of the treasury, was thus very precarious. The plan might work well in fair weather, but in the first storm it was likely to collapse. Mr. Chase, however, seems to have been unconscious that danger lurked in the scheme.

At the very outset the banks encountered an unforeseen obstacle. The independent subtreasury system required all dues to the United States to be paid into the treasury in coin.[1] This would compel the banks to send the specie lent the government to the subtreasuries, there to lie in the vaults until paid out in disbursements to public creditors. But provision had been made by Congress with the special intent of removing this difficulty.[2] The law of August 5 had relaxed the rigor of the subtreasury system so far as to permit the secretary "to deposit any of the moneys obtained on any of the loans . . . . in such solvent, specie-paying banks as he may select," and allowed "moneys so deposited" to "be withdrawn from such deposit for deposit with the regular authorized depositaries, or for the payment of public dues."[3] Under this law the banks expected that the loan to the government would be managed in the same manner as a loan to a private person; they would credit the United States with a deposit of $50,000,000 upon their books, against which the secretary of the treasury could draw as he had occasion. But Mr. Chase's instinctive distrust of bank issues permitted no modification of the subtreasury system.

[1] Acts of July 4, 1840, secs. 19 and 20, 5 *Statutes at Large*, p. 385; and of August 6, 1846, secs. 18, 19 and 20, 9 *Statutes at Large*, p. 59.

[2] See the letter of Mr. E. G. Spaulding, who drafted the section in question, *op. cit.*, Appendix, p. 51; and remarks of W. P. Fessenden, chairman of the senate finance committee, *Congressional Globe*, 37th Cong., 1st Sess., p. 396.

[3] Sec. 6, 12 *Statutes at Large*, p. 313.

He declined to make payments in bank checks on the ground that, though the eastern institutions were ready to pay such checks in coin, their western correspondents on whom they might draw would possibly ask creditors of the government to accept bank notes in satisfaction. He therefore insisted that the loan be paid in specie into the vaults of the subtreasury. Much against their will, the banks complied.[1]

Nor was this the only point in which the banks found the policy of the treasury an obstacle to the success of the loans. Beside borrowing from the banks to secure funds, Mr. Chase took advantage of his discretionary power to issue non-interest-bearing treasury notes.[2] Though payable on demand in gold at the subtreasuries, and receivable for taxes and customs dues, these notes were accepted with reluctance. To facilitate their circulation, the secretary and other treasury officials signed a paper agreeing to take them in payment of their salaries, and General Scott issued a circular setting forth the superior convenience of paper money to soldiers desiring to send home a portion of their pay.[3] But the banks feared the government paper money would drive their own issues from circulation, and declined to receive the demand notes except on "special deposit." Should they receive the notes as current funds, bankers said, they would

1 Secretary Chase's reasons for refusing to draw directly on the banks are given in a letter to Mr. Trowbridge,(WARDEN, *Life of Chase*, p. 387). The side of the banks is represented in G. S. Coe's letter to Spaulding (*History of the Legal Tender Paper Money*, 2d ed., Appendix, pp. 91, 92); J. E. Williams's letter to Chase of October 4, 1861 (*ibid.*, pp. 97–9), and his *War Loans of the Associated Banks to the Government in 1861*, (New York, 1876); JAMES GALLATIN, *The National Finances, Currency, Banking, etc.* (New York, 1864). Most writers have concurred in the opinion that Mr. Chase's refusal was an error. *Cf. Our National Finances, What Shall be Done?* [anon.] (Boston, 1862); SPAULDING, *op. cit.*, Introduction to 2d ed., pp. 1–4, and Appendix, pp. 51–3; F. A. CONKLING, *ibid.*, Appendix, p. 85; J. S. GIBBONS, *The Public Debt of the United States* (New York, 1867), pp. 135, 136; H. V. POOR, *Money and its Laws*, 2d ed. (New York, 1877), pp. 562–4; HORACE WHITE, *Money and Banking* (Boston, 1896), pp. 150–52.

2 Acts of July 17, 1861, sec. 1, 12 *Statutes at Large*, p. 259, and of August 5, 1861, sec. 5 (*ibid.*, p. 313).

3 Text in *American Annual Cyclopædia*, 1861, p. 299.

be under obligation to redeem them in coin on demand, and this would increase the burden which their reserves had to carry, and so endanger the maintenance of specie payments. Furthermore, the existence of a large amount of obligations, which the treasury might be called upon to redeem in coin at any moment of panic, was a standing menace to the solvency of the government, and in so far injured its credit, and made more difficult the rapid sale of the securities held by the banks to the public, on which the success of the loans depended. But it was in vain that the banks appealed to Mr. Chase to cease his issues. He replied: " If you can lend me all the coin required, or show me where I can borrow it elsewhere at fair rates, I will withdraw every note already issued, and pledge myself never to issue another; but if you cannot, you must let me stick to United States notes."[1] Unable to induce the secretary to alter this resolution, the banks again reluctantly yielded.[2]

But though the position of the banks was weakened by Mr. Chase's refusal to allow the proceeds of the loan to remain on deposit until paid out to the creditors of the government, and by his issue of paper money, all went well for a time. Mr. Chase appointed agents in over two hundred

[1] Letter to Trowbridge, WARDEN, *op. cit.*, p. 388.

[2] The banks were the more annoyed at Mr. Chase's refusal to make payments in checks drawn upon them and at his issue of treasury notes, because when the arrangement regarding the loan was made they had understood him to agree to conform his action in these respects to their wishes. See J. E. Williams's letter of October 4, 1861, to Chase and George S. Coe's letter of October 8, 1865, to Spaulding in SPAULDING, *op. cit.*, Appendix, pp. 97–9 and 92 respectively. Mr. Chase, however, said in his report of December, 1861, that "it was . . . . understood that the secretary of the treasury should issue a limited amount of United States notes, payable on demand" (p. 9).

On the inconvenience caused the banks by the issue of the demand notes, see "Objections to Government Demand Notes, by a New York Bank Officer," *Bankers' Magazine* (New York), Vol. XVI, pp. 353–7; GEORGE MARSLAND, "The Banks and the Greenbacks," *Bankers' Magazine* (New York), Vol. XXXI, pp. 173–81; BOLLES, *Financial History of the United States*, 1861–85, pp. 34 and 37; H. V. POOR, *Money and its Laws*, 2d ed. (New York, 1877), pp. 564 ff.; J. K. UPTON, *Money in Politics*, 2d ed. (Boston, 1895), pp. 72 ff.; R. M. BRECKENRIDGE, "The Demand Notes of 1861," in *Sound Currency*, (New York, October, 1898), Vol. V, pp. 336, 337.

towns to receive subscriptions for 7.30 treasury notes,[1] and issued an urgent address, appealing to the people to assist in making the "national loan" successful.[2] His efforts were warmly seconded by the newspaper press, which explained the advantages of the loan to investors, and represented subscription as an act of patriotism. On their side the New York banks strengthened themselves by putting their coin into a common fund, and reviving the organization entered into to check the panic of the preceding November. The "loan committee," then appointed under the chairmanship of Moses Taylor, was entrusted with the superintendence of the execution of the contract with the government. It was part of the arrangement that the stock of specie should not be allowed to fall below one-fourth of the net liabilities, exclusive of circulation and the credit given the treasury. In case any bank failed to maintain this proportion of reserve, the loan committee was directed to charge interest on the deficit, and to pay the interest received to the institutions holding the highest percentage of specie.[3]

The associated banks agreed to divide the subscriptions to the loan between themselves in proportion to their respective capitals. Each bank was to pay 10 per cent. of its subscription into the subtreasury at once, and to place the balance to the credit of the government upon its books.[4] Against these credits Mr. Chase was to draw only as fast as

[1] See list in *Bankers' Magazine*, (New York), Vol. XVI, pp. 308–10. Aside from treasury officials there were 148 agents.—*H. R. Executive Document No. 66*, p. 2, 38th Cong., 1st Sess.

[2] Text is to be found in *Bankers' Magazine*, Vol. XVI, pp. 290–2. The notes were offered at par, and were to draw interest from August 19, but on taking the bonds subscribers were required to pay interest from that date to day of subscription, so that the interest received by the purchaser began with the date of his purchase.

[3] *Cf.* note 1, p. 32, below. The best authority for the banking operations is the "Report of the New York Loan Committee," June 12, 1862, published in the *Bankers' Magazine*, Vol. XVII, and in *H. R. Executive Document No. 25*, 37th Cong., 3d Sess., pp. 125–42.

[4] See text of agreement of banks with government, and proceedings of the meeting of bankers in reference to it.—*Bankers' Magazine*, Vol. XVI, pp. 161–70.

he needed funds for disbursement. It was anticipated that his drafts would be about 10 per cent. of the loan a week.[1] Consequently, the effect of the transaction may be traced in the weekly bank returns of the three cities. In New York the first instalment of the loan, $3,500,000, was paid into the subtreasury August 19, 1861.[2] Comparing the reports of August 17 and August 24, one finds a decrease of $2,600,000 in the specie holdings of the banks, and a like increase in the coin held by the subtreasury.[3] At the same time the balance of the government loan was added to the line of discounts, increasing the loans reported by $29,000,000. Finally, the sum placed upon the books of the banks to the credit of the government to be drawn against produced a nominal increase of $26,500,000 in the deposits.[4] Similar changes are seen on comparing the situation of the Boston and Philadelphia banks on August 17 and 31. In Boston payments to the subtreasury diminished reserves less than $300,000, while discounts and deposits were increased $3,600,000 and $4,200,000, respectively, in consequence of the government loans. The Philadelphia banks lost $600,000 in specie during the two weeks, and increased their discounts $4,600,000 and their deposits $3,700,000.

But the situation immediately began to change. The banks paid over the loan in instalments of about $5,000,000 at intervals of six days.[5] Each payment thus made into the subtreasuries decreased the sum credited to the government as a deposit. Loans also declined, for as fast as the 7.30

[1] *American Annual Cyclopædia*, 1861, p. 64. *Cf.* Chase's letter of October 2, 1861, to Larz Anderson, in SCHUCKERS, *Life of Chase*, pp. 430, 431.

[2] "Report of the New York Loan Committee," *Bankers' Magazine*, Vol. XVII, p. 139.

[3] For this and the similar subsequent comparisons see the table showing the condition of the banks of New York, Boston, and Philadelphia, p. 30, and the accompanying chart.

[4] *Cf.* "Report of the Bank Commissioners of Massachusetts, October, 1861," *H R. Executive Document No. 25*, p. 56, 37th Cong., 3d Sess.

[5] Letter of G. S. Coe, in SPAULDING, *op. cit.*, Appendix, p. 92.

TABLE I

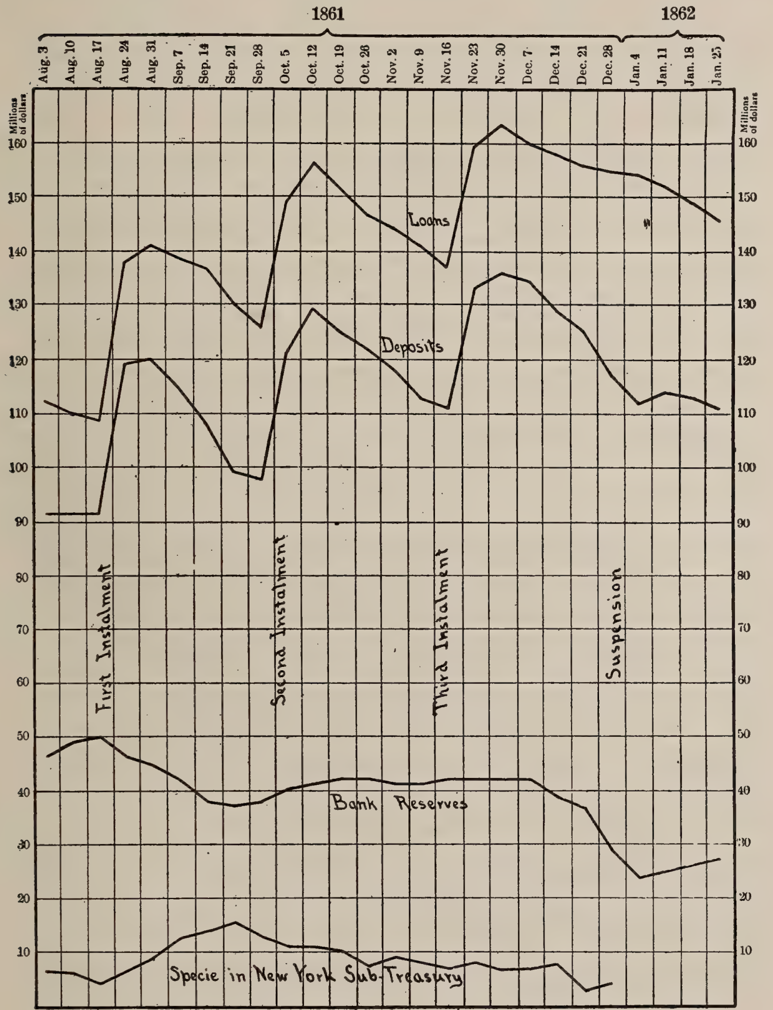
CONDITION OF THE BANKS PARTICIPATING IN THE $150,000,000 LOAN OF 1861

Compiled from tables in *Ex. Doc., No. 25*, p. 107, 37th Cong., 3d Sess.; Appleton's *American Annual Cyclopædia*, 1861, pp. 64, 65; *Hunt's Merchants' Magazine*, Vol. XLVI, p. 393. 00,000 omitted

	New York Banks						Boston Banks				Philadelphia Banks			
	Loans	Specie	Circulation	Deposits	W'kly cl'r'ngs	Specie in subtr's'ry	Loans	Specie	Circulation	Deposits	Loans	Specie	Circulation	Deposits
January 5, 1861	$129.6	$24.8	$8.7	$ 86.5	$ 96.0	$ 3.6	$62.0	$ 4.2	$7.0	$18.7	$26.9	$4.0	$2.7	$15.3
February 2	121.9	31.1	8.1	87.9	122.1	4.3	63.3	4.6	6.2	18.2	25.8	4.6	2.8	15.3
March 2	121.9	34.5	8.3	89.6	126.7	9.2	62.7	4.8	6.4	18.0	25.1	5.0	2.8	14.9
April 6	122.1	41.7	8.9	94.9	123.3	8.5	62.9	5.8	7.0	19.9	25.4	6.5	3.1	16.0
May 4	124.6	38.1	9.3	95.0	106.4	9.8	61.9	5.8	6.9	18.8	25.4	5.9	2.7	15.7
June 1	118.3	37.5	8.7	90.2	88.8	11.5	60.2	6.5	6.1	18.5	24.7	5.7	2.3	15.3
July 6	112.1	45.6	8.9	90.6	88.3	4.6	60.3	6.1	6.9	18.5	24.1	7.0	2.2	15.9
August 3	111.7	46.2	8.6	92.2	81.4	6.7	61.3	6.2	6.4	18.1	24.2	6.7	2.1	15.9
August 10	110.0	48.6	8.7	92.0	80.4	5.6	61.1	6.4	6.5	18.0	24.1	6.8	2.1	15.6
August 17	108.7	49.7	8.5	92.0	80.2	4.4	60.9	6.7	6.4	18.2	24.0	6.8	2.1	15.3
August 24	137.7	47.1	8.5	118.5	82.9	7.0	61.8	6.7	6.2	19.5	27.5	6.5	2.0	18.2
August 31	141.1	45.1	8.4	120.4	83.4	8.9	64.5	6.4	6.2	22.4	28.6	6.2	2.1	19.0
September 7	139.2	41.9	8.9	114.1	89.1	13.1	64.3	7.1	6.5	22.7	28.3	5.6	2.1	18.3
September 14	136.6	37.5	8.8	106.8	95.6	14.3	64.3	6.7	6.4	22.2	27.9	5.0	2.1	17.0
September 21	130.2	35.8	8.7	99.3	97.1	15.5		No	data		27.5	4.7	2.2	16.5
September 28	126.1	38.1	8.6	96.6	85.7	13.1	62.3	5.7	6.3	20.0	26.7	5.2	2.2	16.3
October 5	149.3	39.8	8.9	121.4	110.7	10.6	63.7	6.4	6.7	23.2	30.5	5.4	2.2	20.3
October 12	156.3	41.1	8.7	129.2	114.0	10.8	65.6	7.2	6.7	25.5	30.3	5.9	2.2	20.9
October 19	151.8	42.3	8.6	126.4	122.8	9.5	65.1	7.0	6.6	25.5	29.7	6.4	2.3	21.1
October 26	147.3	42.3	8.4	121.7	111.2	7.3	64.4	7.2	6.3	25.1	28.8	6.5	2.2	20.3
November 2	144.0	41.3	8.6	117.9	113.8	9.1	67.5	7.0	6.2	24.8	28.4	7.8	2.3	20.4
November 9	140.6	41.2	8.9	113.4	116.7	7.8	63.3	7.3	6.6	24.4	27.9	6.9	2.3	20.0
November 16	137.3	41.5	8.8	111.2	117.5	7.4	65.2	7.5	6.4	25.3	27.6	7.1	2.2	19.6
November 23	158.5	41.6	8.6	133.4	121.6	7.9	66.3	7.6	6.1	26.7	29.5	7.4	2.2	22.3
November 30	162.8	41.5	8.5	136.3	104.7	7.0	66.9	7.7	6.0	27.9	30.0	7.4	2.2	23.0
December 7	159.8	42.3	8.8	133.6	120.0	6.7	66.2	8.5	6.3	27.8	31.3	7.3	2.2	23.0
December 14	157.6	39.4	8.6	129.4	114.7	7.8	66.0	9.7	6.3	27.8	31.2	7.4	2.2	22.9
December 21	155.8	36.8	8.6	124.9	125.3	2.8	65.6	10.1	6.1	28.1	31.0	6.2	2.1	21.7
December 28	154.8	29.4	8.4	116.5	91.1	4.0	65.6	9.0	6.1	27.6	30.9	5.5	2.0	21.0
January 4, 1862	154.4	24.0	8.6	111.8	100.6	....	65.6	8.9	6.5	27.1	31.0	5.7	2.1	21.4
January 11	152.1	25.4	8.1	113.9	105.6	....	64.7	8.6	6.6	25.6	31.1	5.7	2.2	21.3
January 18	149.1	26.1	7.4	113.3	107.7	....	64.4	8.6	6.5	25.4	30.6	5.7	2.1	20.7
January 25	145.8	26.7	6.8	110.9	100.0	....	63.0	8.6	6.3	24.0	30.4	5.8	2.1	20.1

CHART I

GRAPHIC ILLUSTRATION OF THE EFFECT UPON THE NEW YORK BANKS OF THE $150,000,000 LOAN



notes were sold to the public through the treasury agencies the proceeds were remitted to the banks and deducted by them from the loan to the government. From August 31 to September 28 the decline of bank loans was $15,000,000 in New York, $2,000,000 in Boston, and $2,000,000 in Philadelphia. The corresponding decline in deposits amounted to $23,800,000, $2,400,000, and $2,700,000 respectively.

The point of crucial importance for the success of the bank loan, however, was the change in the stocks of specie held. The payments into the subtreasuries drained the bank reserves of about $5,000,000 a week. This loss was offset in part by the re-deposit in the banks of money paid out by the government to army contractors and other creditors, and in part by sums received from the treasury on account of sales of 7.30 notes to the public through the subscription agencies—though it was not until September 3 that the banks received any reimbursement from this latter source.[1] For the first five weeks the withdrawal of specie from the banks so far exceeded receipts as to cause a rapid reduction of reserves. From August 17 to September 21 the New York banks lost $13,000,000 of specie. Whither the money had gone is shown by the contemporaneous gain of $11,000,000 in the coin held by the New York subtreasury. During the same time the Philadelphia banks lost $2,000,000, or over 30 per cent. of their specie. In Boston the reserves increased slightly for the first three weeks and the subsequent loss was less serious than in the other cities, a trifle less than 20 per cent. In New York the loan committee found that the loss of coin reduced the reserves of some of the associated banks below the stipulated proportion of 25 per cent. to net deposits, making necessary a

[1] "Report of the New York Loan Committee," *H. R. Executive Document No. 25*, 37th Cong., 3d Sess., p. 128.

reapportionment of the specie for the first time on September 2.[1]

After September 21, however, the tide turned. "The disbursements of the government for the war were so rapid," said Mr. Coe, a New York bank president, "and the consequent internal trade movement was so intense, that the coin paid out upon each instalment of the loan came back to the banks through the community in about one week."[2] Such fresh deposits, together with the reimbursements received through the treasurer from the public subscriptions to the loan, came to exceed the payments of specie into the subtreasury, and the reserves consequently rose again. By the middle of October the New York banks held $5,500,000 more specie than on September 21. Meanwhile government disburdsements had reduced the specie holdings of the subtreasury by $6,000,000. In about the same period the reserves of Boston banks gained $1,500,000 and those of the Philadelphia banks $1,700,000.

Encouraged by the gain in specie, the banks agreed to take a second $50,000,000 of the 7.30 three-year treasury notes October 1, fifteen days earlier than the time agreed upon in August, although they had not yet completed their

[1] The apportionment was at first managed by charging interest upon the deficiency of reserve; but on September 21 this account was closed, and "thereafter the specie apportionment was made by requiring the banks to exchange loan certificates for specie whenever their specie was less than 25 per cent. of their net deposits, exclusive of the amount to the credit of the government." From September 21 to December 30 a daily apportionment of specie was made in this fashion. The committee issued loan certificates drawing 7 per cent. interest to banks whose reserves had fallen below the limit, for 90 per cent. of the amount of 7.30 notes, or assistant treasurer's receipts for payments on the loan, deposited with them. An issue of $10,000,000 of such certificates had been authorized by the banks April 24, 1861. This was increased to $15,000,000 December 18, to $20,000,000 December 28, and to $25,000,000 January 20, 1862. The total issues were $22,585,000, and the largest amount outstanding was $21,960,000 from February 3 to February 7, 1862. The interest amounted to $396,436.32. Certificates were issued to thirty-nine of the fifty associated banks, thirty-one of which paid more interest than they received. All the certificates were redeemed by April 28, 1862.—*Ibid.*, pp. 126–33.

[2] Letter of October 8, 1875, in SPAULDING, *op. cit.*, Appendix, p. 93.

payments upon the first loan.[1] There was but one ominous sign—the popular subscription under the management of the treasury department had not been an unqualified success. In the hope of stimulating the lagging subscriptions, the Boston banks had issued a card September 11, saying:

> The banks are meeting their engagements and furnishing the $50,000,000 with no practical inconvenience to themselves or the mercantile community; and if no more money was required no difficulty would be experienced. . . . . *But who is to furnish the next $50,000,000?* Are the banks expected to do so? If they are, the men of means, large and small, must take and pay for the first $50,000,000 during the present month or early in October—otherwise it cannot be accomplished.[2]

But, despite such appeals and the efforts of the secretary and the press, subscriptions became so slow, after about $45,000,000 of the first loan had been sold to the public, that the treasury agencies were closed and the banks undertook to dispose of the second $50,000,000 themselves without the aid of the government.[3]

Changes in the accounts of the banks, similar to those resulting from the first loan, followed the taking of the second. On comparing the reports for September 28 and October 12, one sees an increase of loans amounting to $30,000,000 in New York, $3,300,000 in Boston, and $3,600,000 in Philadelphia. At the same time, the credit given the government upon the books of the banks created a corresponding increase of deposits amounting to $32,600,000, $5,500,-

[1] *Cf. Bankers' Magazine* (New York), Vol. XVI, p. 397, and "Report of the New York Loan Committee," *ibid.*, Vol. XVII, p. 140.

[2] *Bankers' Magazine* (New York), Vol. XVI, pp. 366, 367.

[3] Chase's letter to Trowbridge, WARDEN, *op. cit.*, p. 387. The banks continued, however, to receive drafts from the treasury on account of the sales made to the public by the treasury agencies on their account. The final cash reimbursement was not received in New York until January 13, 1862.—*Executive Document No. 25*, p. 128, 37th Cong., 3d Sess. Of the $45,000,000 sold, $24,700,000 were disposed of by private agents and the balance by department officials. It was by his success in obtaining subscriptions for over $5,000,000 of 7.30s that Jay Cooke attracted Mr. Chase's attention.—See *H. R. Executive Document No. 66*, 38th Cong., 1st Sess.

000, and $4,600,000 respectively. But, instead of falling off as in August, the reserves of the banks increased, maintaining a high level throughout October, November, and the first half of December. Of course, as successive $5,000,-000 instalments were paid into the subtreasuries by the banks, their deposits declined again after October 12, as they had after August 31, and the loans were reduced by continued receipts from the proceeds of the popular subscription. By November 16 (the last report made before the taking of the third loan) the fall of deposits in New York was $18,000,000, and of loans $19,000,000. The corresponding figures for Philadelphia were $1,300,000 and $2,700,000; and for Boston (October 12 to November 9) $1,100,000 and $2,300,000.

All this time, while supplying the federal treasury with specie on so large a scale, the banks had also to furnish the usual accommodations to the mercantile community. But they were able to serve both the government and the public with comparative ease. For, as the Massachusetts bank commissioners reported in October, 1861, "the prostration of business robbed them of their usual customers, and the operations of the government, which have given rise to a new activity exerted in the public service, have caused the making of very little business paper, such as banks are in the habit of discounting. Public contractors are usually paid in cash at intervals shorter than the average length of bank accommodations, and they have little occasion to borrow money."[1]

The last instalment of the first $50,000,000 was paid into the subtreasuries by the banks October 24, and payment on the second loan was begun five days later.[2] The operation

[1] *Executive Document No. 25*, 37th Cong., 3d Sess., p. 56.

[2] "Report of the New York Loan Committee," *Bankers' Magazine* (New York), Vol. XVII, pp. 139, 140.

proceeded smoothly, the decline of the reserves being insignificant, and the banks determined to take a third $50,000,000 of government securities November 16, a month before the date set in the agreement of August. But, because of the difficulty experienced in disposing of the three-year 7.30 treasury notes to the public, they declined to accept more of these securities, and received instead twenty-year 6 per cent. bonds at a rate equivalent to par for 7 per cent.,[1] in the expectation that such bonds could be sold at a profit in Europe.[2] At the same time, the banks were given the option of taking on January 1, 1862, a fourth loan of $50,000,000 upon the same terms as the first and second.[3] In pursuance of this arrangement, the government was given credit upon the books of the banks for $45,795,478.48—the proceeds of the $50,000,000 bonds at the given rate[4]—which increased once more the sum of loans and deposits.[5]

For several weeks after the third loan was taken everything went well. The banks continued to pay regular instalments on the second loan into the subtreasuries of New York, Boston, and Philadelphia, and did not make the first payment on the third until December 10.[6] Meanwhile the specie reserves increased slightly in each of the three cities, so that by December 7 New York banks held as much coin as at any time since August, and the Boston and Philadelphia

[1] This rate is 89.322463831—*Executive Document No. 25*, p. 129, 37th Cong., 3d Sess. This arrangement was made under authority of sec. 7 of the act of August 5, 1861, 12 *Statutes at Large*, p. 313.

[2] See the letter from a New York bank president published in the New York *Tribune*, December 25, 1861, p. 7.

[3] *Report of the Secretary of the Treasury*, December, 1861, p. 10.

[4] *Ibid.*, *loc. cit.* *Cf. Executive Document No. 25*, p. 129, 37th Cong., 3d Sess.

[5] For New York the gain from November 16 to November 30 was $25,500,000 in loans and $25,100,000 in deposits. For Philadelphia the corresponding figures are $2,400,000 and $3,400,000. The Boston banks gained $3,600,000 in loans from the second to the fourth week in November and $3,500,000 in deposits.

[6] "Report of the New York Loan Committee," *Bankers' Magazine*, Vol. XVII, p. 140.

banks were actually stronger in specie than at the time when the first government loan was made.

About this time, however, two untoward events occurred. The first was the publication, December 10, of the annual report of the secretary of the treasury. In his report to the extra session of Congress in the preceding July, Mr. Chase had estimated that receipts from customs dues and sales of public land would yield during the current fiscal year (July 1, 1861, to June 30, 1862), a revenue of $60,000,000, while the expenditures of the government would probably reach $318,519,582.[1] Enormous as this budget seemed, the succeeding months proved its inadequacy. The December report showed that the estimate of expenses should be increased $214,000,000, while the estimate of revenue from customs and land sales should be reduced $25,000,000.[2] But more than this, it had been generally felt that the plan of borrowing from banks could be only a temporary makeshift to serve until a permanent policy was matured. It was hoped that the report of December would present a definite plan of finance based upon adequate taxation. But Mr. Chase proposed taxes yielding only $50,000,000,[3] and put his main reliance upon a scheme for reorganizing the banks of the country in such a way as to compel them to buy a large amount of government bonds.[4] The disappointment caused by the report was keen.[5]

The second event was the Trent affair. November 8, 1861, Captain Wilkes, of the American warship San Jacinto, removed two commissioners of the Confederate States —

[1] *Senate Executive Document No. 2*, pp. 5 and 8, 37th Cong., 1st Sess.

[2] *Report of the Secretary of the Treasury*, December, 1861, pp. 11, 12.

[3] *Ibid.*, p. 15.

[4] *Ibid.*, pp. 17–20.

[5] *Cf.* "Federal Finances Examined" (anon.) *Hunt's Merchants' Magazine*, Vol. XLVII, December, 1862, p. 507; *Appleton's Annual Cyclopædia*, 1861, p. 66; BLAINE, *Twenty Years of Congress*, (Norwich, Conn., 1884), Vol. I, p. 407.

Messrs. Mason and Slidell—by force from the British steamer Trent, plying between Havana and Southampton. In the United States lively satisfaction was felt in this capture, and Wilkes was dined by clubs and thanked by Congress. But when the news reached England, November 27, there was great indignation over what was felt to be a wanton insult to the British flag; and the government dispatched a queen's messenger to Washington to demand the surrender of the prisoners and an apology. If this demand were not complied with in seven days the English ambassador was instructed "to repair immediately to London." This was a plain threat of war. Intelligence of the action taken by the English cabinet was received in New York on December 16. As the report had gone out that the Confederates would not be released it seemed highly probable that the federal government would be involved in a second war.[1]

The receipt of the news on the 16th caused a panic in the New York markets. On the stock exchange government securities fell 2–2½ per cent. Shares of all kinds participated in the decline,[2] and sterling exchange rose two points.[3] Wall street was filled with rumors of an agreement among the banks to suspend specie payments, and men with balances in banks began to turn them into special deposits.[4] Next day a meeting of the associated banks was called to consider the situation. A motion was made to suspend specie payments at once, but the proposal failed of adoption. Instead, in the hope of quelling the panic, the banks unanimously adopted a series of vigorous resolutions, declaring that there was "nothing in the position of the loans to the government to

[1] *Cf.* J. F. RHODES, *History of the United States*, Vol. III (New York, 1895), pp. 520–43.

[2] *Bankers' Magazine* (New York), Vol. XVI, pp. 558 and 491; and stock quotations, *ibid.*, p. 559.

[3] *Ibid.*, Vol. XVI, p. 736.

[4] *Ibid.*, Vol. XVI, pp. 491 and 558.

cause uneasiness," and that they saw "no reason, justification, or necessity for a suspension of specie payments."[1]

But these resolutions availed little. While the banks continued to pay specie into the subtreasury at the usual rate, the money paid out by the goverment to contractors and others, owing to the alarmed state of the public mind and the fear of a suspension, did not flow back as before into their reserves.[2] This cut off the chief source from which the reserves had been recruited. Meanwhile the banks of Boston and the West began to draw heavily upon their balances in New York, so that the deposits fell off $17,000,000 in three weeks.[3] To meet this double drain—coming from the subtreasury and the interior banks—the New York institutions had no available resource. Over $50,000,000 of their resources seem to have been locked up in government securities,[4] which could not be sold to obtain specie; for the fall in the price of stocks made it impossible to dispose of 7.30 treasury notes at home except at a heavy sacrifice,[5] and the danger of war with England cut off all hope of negotiating the 6 per cent. bonds in Europe.[6] The result of the situation was a rapid depletion of the reserves. The week that Mr. Chase's report on the finances was published the New York banks lost $2,900,000 of specie. The next report—made after the receipt of warlike news from England—

1 See copy of the resolutions in *Hunt's Merchants' Magazine*, Vol. XLVI, p. 101. *Cf.* the comment in the New York *Tribune*, December 23, p. 8, and December 30, p. 8; New York *Herald*, December 19, p. 6; and New York *Times*, December 30, p. 4.

2 *Cf.* letter from a New York bank president in New York *Tribune*, December 25, 1861, p. 7.

3 *Cf.* New York *Tribune* of December 23, p. 8, and of December 30, p. 8. The table, p. 30, above, shows that the Boston banks increased their specie, while those of New York were losing rapidly.

4 *Cf. Bankers' Magazine* (New York), Vol. XVI, p. 560.

5 Most of the 7.30 notes sold by public subscription had been taken by "small investors, and they were already again offering them in the market to an extent which reduced the price to 96 for those that were indorsed and 98 for clean notes."—*American Annual Cyclopædia*, 1861, p. 299.

6 Letter from bank president in New York *Tribune*, December 25, 1861, p. 7.

exhibited a further loss of $2,600,000. During the next seven days the rate of depletion was even more rapid, and the loss for the week amounted to $7,400,000.

Under such a drain the complete exhaustion of the reserves was evidently a question of only a short time. Saturday, December 28, the banks held another meeting to decide what measures should be taken. After a "rather stormy" session of six or seven hours, the resolution to suspend specie payments upon the following Monday, December 30, was carried by a vote of 25 of the institutions represented to 15.[1]

[1] *Cf.* "Remarks made by Mr. James Gallatin at the Meeting of Bank Officers, ... December 28, 1861," *Bankers' Magazine* (New York), Vol. XVI, pp. 625–31; H. W. DOMETT, *History of the Bank of New York*, 2d ed. (New York, 1884), p. 97, and accounts of the meeting in the New York daily papers of December 30, 1861.

It is to be noted that suspension was rather a measure of precaution to prevent further depletion of the reserves than one of necessity; for on the day when suspension was decided upon the New York banks held $4,600,000 more specie than they had at the commencement of the year. Their attitude was expressed in Mr. Gallatin's remarks: "The government must suspend specie payments or we must, and it is only a question of a few more days' time as to who suspends first and who shall hold the specie now in our vaults. If we hold it, the people and the government will be alike benefited. If government takes it, the whole will be expended and hoarded by a few people."—*Bankers' Magazine* (New York), Vol. XVI, p. 627.

At the time of suspension the account of the banks with the government stood as follows (*ibid.*, p. 560)

	Subscribed to Loan	Paid in	Received back from Government	Due to Government
Banks of New York - - -	$102,056,835	$81,056,835	$27,125,000	$21,000,000
Banks of Boston - - - -	29,159,095	23,159,095	7,750,000	6,000,000
Banks of Philadelphia - -	14,579,548	11,579,548	3,875,000	3,000,000
	$145,795,478	$115,795,478	$38,750,000	$30,000,000

The government made its last cash payment to the banks January 13, 1862, and the banks paid the last instalment of money due upon the second loan January 15, and on the third loan February 4. January 24 the banks still owed the government $9,375,000. (*Cf.* "Report New York Loan Committee," *Bankers' Magazine*, Vol. XVII, pp. 139, 140, and comment on the money market, *ibid.*, Vol. XVI, pp. 560 and 655.)

There was a vexatious delay in the delivery to the banks of the securities they had purchased. The 7.30 treasury notes for the portion of the first loan which was not sold to the public ($5,625,000) were not received by the banks till January 24, 1862. The notes for the second loan were delivered in four instalments between January 22 and February 5; and the 6 per cent. bonds for the third loan in nine instalments between January 27 and March 5.—"Report of the New York Loan Committee," *loc. cit.*

"As fortunately as unexpectedly," reported the New York Loan Committee June 12, 1862, in regard to the operation, "it has resulted profitably for the associates, and has probably enabled them to employ their means to nearly as much

"The suspension of the banks [of New York] was received in commercial and monetary circles without surprise."[1] The banks of Philadelphia, which had lost nearly $2,000,000 of specie in a fortnight, followed suit; and so did those of Boston, although the latter had managed to increase their reserves $1,600,000 between December 7 and 21, and had then lost but $1,100,000 by the 28th, thus suspending with $2,300,000 more specie than on August 17, when the contract for the first government loan was taken. With the exception of the banks of Ohio, Indiana, and Kentucky, and a few scattered institutions, the suspension of specie payments immediately became general.[2]

The suspension of the national treasury followed of necessity hard upon that of the banks. As Mr. Chase said, after the banks had ceased paying in specie, it was "certain that the government could no longer obtain coin on loans in any adequate amounts."[3] Consequently the treasury was obliged to cease redeeming in coin the demand treasury notes in circulation.[4]

The responsibility for the suspension of the banks and

advantage as would have been done but for the political disturbances of the country. Most of the government securities which have been sold by the associates have been sold by themselves at different times, and it is not possible for your committee to state the amount of interest for the capital invested which has been received thereon; but the associates still hold a large amount of them, the market value of which is much higher than the price at which they were taken."—*Loc. cit.*, p. 148.

Moreover, the banks drew interest at 7.3 per cent. upon the entire $50,000,000 of the first loan from August 19, upon the second from October 1, and upon the third from November 16. As they paid up these loans at the rate of about $5,000,000 per week, not completing the payments on the first loan till October 24, 1861, on the second till January 15, 1862, and on the third till February 4, 1862, they were for a considerable time paid interest on funds that had not left their possession. On that portion of the first loan sold to the public, the banks received interest from August 19, 1861, to the dates of sale, amounting altogether to $621,290.—"Report of the New York Loan Committee," *Bankers' Magazine*, pp. 139–42, and *Report of the Secretary of the Treasury*, 1861, p. 9.

[1] New York *Tribune*, December 31, 1861, p. 3.

[2] *Cf.* Part II, chap. ii, sec. ii, below.

[3] Letter to Trowbridge, WARDEN, *Life of Chase*, p. 388.

[4] On the subsequent history of these treasury notes see Part II, chap. ii, sec. iii, and chap. iii, sec. ii, below.

government has frequently been placed upon Mr. Chase for his issue of demand treasury notes and his refusal to draw directly upon the banks in making payments.[1] Examination of the condition of the banks, as shown in their weekly reports, however, hardly bears out this opinion. Doubtless the position of the banks would have been stronger had the secretary conformed his policy to their wishes. But, inasmuch as no serious trouble had been experienced up to the second week of December, despite Mr. Chase's refusal to do as the banks desired, it seems unreasonable to attribute the sudden loss of specie in the last three weeks of December, which caused suspension, to the policy pursued by him throughout — especially when the result is so adequately accounted for by the depression due to the unfavorable treasury report and to the fear of a war with England. These events made clear the weakness inherent in the plan of the bank loan. Suspension was inevitable whenever anything occurred to check the re-deposit in the banks of money paid out by the treasury, or to prevent the banks from replenishing their reserves by selling the securities received from the government. A severe blow to the national credit would inevitably produce such effects. It so happened that the publication of the disappointing treasury report and the Trent affair were the first occurrences of this nature momentous enough to arouse general uneasiness. Had there been no threat of war with England, and had the condition of the federal finances revealed in the report of December been less gloomy, the banks would probably have been able to carry out their program of taking a fourth $50,000,000 of treasury notes on January 1. Suspension would then have been postponed, but, in all probability, not prevented. To assume that the banks could have continued indefinitely to carry their double burden — supplying both government and

[1] For examples see the citations in note 1, p. 26, and note 2, p. 27, above.

public with loans—is to assume that no serious reverse would have befallen the national credit; for, as has been twice said, a disturbance of public confidence would have led to the withdrawal of deposits and the hoarding of specie; the government securities held by the banks would have become unsalable and suspension would have followed.

As it was, the specie standard was abandoned within six months after the Civil War had fairly begun. The country was left at the beginning of the new year, 1862, with a mixed circulation of paper money which neither the issuing banks nor the federal treasury were prepared to redeem in coin. How Congress met the situation thus created forms the subject of the following chapter.[1]

[1] General accounts of the $150,000,000 bank loan and the suspension of specie payments are to be found in *Report of the Secretary of the Treasury*, December, 1861, pp. 8-10; letter of Chase to Trowbridge, in WARDEN, *Life of Chase*, pp. 386–8; SCHUCKERS, *Life of Chase*, pp. 225–31; "Report of the Loan Committee of the New York Banks," *Executive Document No. 25*, 37th Cong., 3d Sess., pp. 125–42, and *Bankers' Magazine* (New York), Vol. XVII, pp. 136–49 (details of the management of the loan by the New York banks); GEORGE S. COE, letter of October 8, 1875, to E. G. Spaulding, in latter's *History of the Legal-Tender Paper Money*, 2d ed. (Buffalo, 1875), Appendix, pp. 89–96; republished under title, "Financial History of the War," in *Bankers' Magazine*, Vol. XXX, pp. 536–44 (written from point of view of the banks, as is the next also); J. E. WILLIAMS, *The War Loans of the Associated Banks to the Government in 1861* (New York, 1876); *American Annual Cyclopædia*, 1861, article "Finances of the United States," and pp. 61–6 (impartial); "Federal Finances Examined" (anon); *Hunt's Merchants' Magazine*, Vol. XLVII, pp. 506 ff. (criticism of Mr. Chase); VON HOCK, *Die Finanzen und die Finanzgeschichte der Vereinigten Staaten* (Stuttgart, 1867), pp. 442–6 (deficient in information); W. A. BERKEY, *The Money Question*, 4th ed., Grand Rapids (Mich.), 1878, pp. 154–8 (version of the "greenback" party); BOLLES, *Financial History of the United States*, 1860–85, pp. 20–42 (loosely written); W. G. SUMNER, *History of Banking in the United States*, (New York, 1896) [Vol. I of *History of Banking in all Nations*], pp. 458–61.

CHAPTER II

THE FIRST LEGAL-TENDER ACT

I. *The Legal-Tender Bills:*
Spaulding's Legal-Tender Bill — Discussion in Committee — The Bankers' Convention — Revision of Spaulding's Bill.

II. *Debate in Congress:*
Constitutional Argument — Argument from Experience — Economic, Moral, and Fiscal Objections — Argument from Necessity — Alternatives Proposed — A Temporary Measure.

III. *Attitude of Secretary Chase:*
Chase's Reluctant Assent to Legal-Tender Clause — Later Denial of Necessity for It — Opinions of Financial Critics.

IV. *Passage of the Act:*
Three Substitutes for Legal-Tender Bill — Vote in House — Senate Amendments — Votes in Senate — Conference Committee — Provisions of Law — Attitude of the Business Public and of the Press.

I. THE LEGAL-TENDER BILLS

On the very day that the New York banks suspended specie payments, a proposal was made in Congress that the United States resort to the issue of an irredeemable paper currency of legal-tender notes. This bill, so promptly presented, originated in the following manner:

In his report of December 9 Mr. Chase had estimated the probable deficit for the coming six months at $214,000,000. To secure this sum he proposed an increase of only $50,000,000 in taxation and for the remainder reliance upon loans. With the purpose of making it easier to borrow he suggested a national reorganization of the state banking system requiring all banks to purchase United States stocks to hold as security for their circulating notes[1]—a proposal

[1] *Report of the Secretary of the Treasury*, December, 1861, pp. 11–20; *Notes Explanatory of Mr. Chase's Plan of National Finance* (Washington, 1861), p. 15.

out of which the national banking system developed some two years later.

According to the usual course of business this report was read in the House of Representatives and referred to the Committee of Ways and Means. The large amount of work which devolved upon this committee had made necessary a division of labor among its members. The chairman, Mr. Thaddeus Stevens, of Pennsylvania, whose radical anti-slavery opinions, imperious temper, and vigorous use of invective had made him the Republican leader of the House, devoted himself to pushing the appropriation bills. To the remaining eight members fell the task of preparing new measures. They organized in two subcommittees, one of which, presided over by the leading tariff advocate of the day, Justin S. Morrill, of Vermont, undertook to frame a program of war taxation, leaving the other subcommittee to consider the loan bills.[1]

It was to this second subcommittee that Mr. Chase's national currency scheme was submitted. The chairman was Elbridge G. Spaulding, a Buffalo banker who had been state treasurer of New York and had served two terms in Congress. His colleagues were a retired Boston merchant, Samuel Hooper, who had entered politics as a Republican after accumulating a fortune in business, and Erastus Corning, an Albany millionaire possessing executive ability but no talent for speech-making. These three gentlemen immediately adopted the secretary's plan and began to draft a bill for a national currency secured by a pledge of government bonds. But on Saturday, December 28, they learned that the New York banks had decided to suspend specie payments on the following Monday. Suspension would of course drive gold from circulation and leave the country

[1] E. G. Spaulding, *History of the Legal-Tender Paper Money Issued During the Great Rebellion* (Buffalo, 1869), pp. 7, 8.

with no other currency than the $33,000,000 demand notes issued by the treasury, the notes of the suspended state banks, and small change of silver and minor coins. Even when redeemable in specie the bank notes, issued by some 1,600 different institutions according to no general plan and varying widely in value, made a very unsatisfactory currency. Moreover, bank notes could not legally be accepted and paid out by the federal treasury under the provisions of the subtreasury law. Mr. Chase's plan for reorganizing the banking system would perhaps furnish a sounder circulation, but the banking bill contained sixty sections and was certain to encounter opposition from the friends of state banks that would delay its enactment several months. "So long a delay," thought Mr. Spaulding, "would be fatal to the union cause." Accordingly, he "changed the legal tender section, intended originally to accompany the bank bill, into a separate bill, ... and on his own motion introduced it into the House by unanimous consent on the 30th of December."[1]

After being twice read in the House of Representatives, this bill was referred back to the Committee of Ways and Means. Upon its wisdom the members of the committee were equally divided. Of the subcommittee, Spaulding and Hooper favored the bill, while Corning opposed it. Thaddeus Stevens at first objected to the legal-tender clause as unconstitutional; but he soon overcame his scruples and decided to vote for the bill. Morrill, of Vermont, and Horton, of Ohio, joined Corning in opposition. Maynard, of Tennessee, and Stratton, of New York, took no part in the discussion; but the former was inclined to support the proposal, while Stratton was undecided. There was thus a deadlock in the committee—four members favored and four

[1] SPAULDING, *op. cit.*, p. 14. This was H. R. bill No. 182. It authorized the issue of $50,000,000 of legal-tender treasury notes. For text see SPAULDING, pp. 14, 15.

opposed the bill. The ninth member, John S. Phelps, of Missouri, was not in Washington at the time. But finally the wavering member, Stratton, consented to vote for the bill in order that it might go before Congress for consideration.[1] Thus, after a narrow escape from defeat in the committee, the legal-tender bill was formally reported to the House by Mr. Spaulding, January 7, 1862.[2]

Mr. Spaulding's reasons for urging a legal-tender bill upon Congress at this juncture were given in a letter to a gentleman who ventured to suggest that heavy taxation was preferable to the issue of irredeemable paper as a method of securing revenue. Spaulding wrote:

> The treasury-note bill . . . . is a measure of *necessity* and not one of *choice*. . . . . We will be out of means to pay the daily expenses in *about thirty days*, and the committee do not see any other way to get along till we can get the tax bills ready, except to issue temporarily Treasury notes. . . . . We must have at least $100,000,000 during the next three months, or the Government must stop payment.

And the letter closed with an intimation that unless the gentleman could suggest some other plan for raising the said $100,000,000 it would best become him not to criticise the bill.[3]

By the publication of copies of the legal-tender bill in various newspapers, the country was quickly informed of the radical step which Congress was considering. When the bankers of New York, Boston, and Philadelphia who had been supplying the government with funds heard of the proposal, a number of the most prominent went to Washington to persuade Secretary Chase that the situation could be

[1] SPAULDING, *History*, p. 16.

[2] This second bill (H. R. bill No. 187) differed from the first in increasing the issue of legal-tender notes from $50,000,000 to $100,000,000 and in making the demand notes authorized in July, 1861, also a legal tender. For text see *ibid.*, pp. 16, 17.

[3] Letter of E. G. Spaulding to Isaac Sherman, January 8, 1862, SPAULDING, *History*, pp. 17, 18.

met with a remedy less heroic than the issue of an irredeemable paper currency. January 11, 1862, these gentlemen had an informal conference with Mr. Chase, the members of the House Committee of Ways and Means, and of the Senate finance committee.[1]

As spokesman for the banks, Mr. James Gallatin, president of the Gallatin Bank of New York, pointed out the evil consequences that would follow the emission of legal-tender paper money, and submitted an alternative plan for relieving the necessities of the treasury. The main features of his proposal were: first, heavy taxation; second, the sale of long-time bonds at their market value. Adequate taxation, he argued, would give the long-needed assurance that the treasury had ample revenue to pay interest on loans. Bonds could then be sold on better terms, especially after the futile attempt to fix a minimum value for them by legislation forbidding sales below par should have been abandoned.[2]

Simple and efficient as this plan seems, it did not meet with the approval of the secretary or the congressional committees. Mr. Spaulding, who replied to Gallatin, stated the grounds of their dissent as follows:

> Mr. Spaulding objected to any and every form of "shinning" by government through Wall or State streets to begin with; objected to the knocking down of government stocks to 75 or 60 cents on the

[1] SPAULDING, *op. cit.*, pp. 18–20.—The bankers who took part in this conference seem to have had no official position as delegates of the association of banks. However, they were men of such prominence that much weight was attached to the opinions they expressed on financial topics. According to Spaulding, Coe, Vermilye, Martin, and Gallatin came from New York; Haven, Walley, and Bates from Boston; and Rogers, Mercer, and Patterson from Philadelphia (*ibid.*, p. 19). But that the views of these gentlemen were not shared by all their associates appears from the letters received about this time by Mr. Spaulding from other bankers (*ibid.*, p. 23–5). See also the New York *Herald* financial column dated January 13, 1862.

[2] There were four other points in Mr. Gallatin's plan: (1) cessation of issue of demand notes beyond the $50,000,000 already authorized; (2) the issue of $100,000,000 of two-year treasury notes receivable for government dues except customs; (3) suspension of the subtreasury act so as to allow banks to become government depositories; (4) authorization of temporary loans secured by pledges of government stock.—*Ibid.*, p. 20.

dollar, the inevitable result of throwing a new and large loan on the market, *without limitation as to price;* claimed for treasury notes as much virtue of par value as the notes of banks which have suspended specie payments, but which yet circulate in the trade of the North; and finished with firmly refusing to assent to any scheme which should permit a speculation by brokers, bankers, and others in government securities, and particularly any scheme which should double the public debt of the country, and double the expenses of the war by damaging the credit of the government to the extent of sending it to "shin" through the shaving shops of New York, Boston, and Philadelphia.[1]

This reply of Mr. Spaulding to Mr. Gallatin is interesting because it shows plainly the curious inconsistency in the position taken by the promoters of the legal-tender bill from beginning to end of the discussion. They professed to advocate the issue of paper money upon the ground of sheer necessity. By this means alone, said Mr. Spaulding, in the letter quoted above, could the immediate wants of the treasury be met. To substantiate this argument it was of course necessary to show that no other feasible method of obtaining funds existed. When, then, bankers declared that there was an alternative, that the government could secure means by adopting a policy of vigorous taxation and selling its bonds at their market value, the only logical answer for the friends of the legal-tender bill was to show that the bankers were mistaken. But such was not the answer that Mr. Spaulding made. He replied instead that selling bonds below par was more objectionable than issuing paper money. And in this view the committee of Congress apparently concurred. Thus, when the delegates of the banks called attention to the possibility of borrowing, the argument for the legal-tender bill was shifted from the ground of necessity to that of expediency. The choice lay not between irredeemable paper money and federal bankruptcy, but between irredeem-

[1] SPAULDING, p. 21.

able paper money and borrowing at high rates of interest. The financial leaders of the government deliberately preferred the former course. Whether their choice was wise or not, even from the strictly financial point of view; whether the increase of debt, which Mr. Spaulding saw would result from selling bonds below par, was avoided by the issue of paper money; whether "the knocking down of government stocks to 75 or 60 cents on the dollar" was prevented, are questions that must be left for the chapter on the effect of paper issues upon the cost of the war.[1]

As has been said, Mr. Spaulding's reply convinced the congressional committees that the legal-tender bill was a better method of relieving the embarrassment of the treasury than the bankers' proposal to sell bonds at their market value. Subsequently, however, the delegates of the banks succeeded in formulating a plan which received the indorsement of the secretary of the treasury. New loans of $250,000,000 or $300,000,000 and the enactment of the national banking bill advocated in Mr. Chase's report were its chief points. The issue of demand notes in excess of the $50,000,000 already authorized, and the making those already issued a legal tender, was to be avoided as unnecessary.[2] But this plan also was rejected by the committees of Congress as inadequate to the crisis. Plainly, it would be of small avail to authorize bonds at par when capitalists would buy them only at a discount, and to sales below par the committees would not agree. Consequently, the attempt of the representative bankers of New York, Boston, and Philadelphia to give the government the benefit of their advice came to nought. The plans suggested by them are of interest, however, because they show that in the opinion of experienced

[1] Part II, chap. x, below. *Cf.* HENRY ADAMS, *Historical Essays* (New York, 1891), pp. 289–93 and 63, 64 below.

[2] SPAULDING, pp. 21, 22.

men the legal-tender act was not the only escape from the difficulties into which the treasury had drifted.

After the convention of bankers had broken up, Mr. Spaulding added another section to the legal-tender bill, recast it in pursuance of suggestions from Secretary Chase,[1] and introduced it again into the House of Representatives, where it was made the special order for January 28, 1862. As it came before Congress the measure provided for the issue of $100,000,000 of United States notes to be "a legal tender in payment of all debts, public and private," and exchangeable for 6 per cent. twenty-year bonds of which the secretary was authorized to issue $500,000,000.[2] Upon the appointed day the House resolved itself into a committee of the whole upon the state of the Union, and Mr. Spaulding made an elaborate introductory speech, explaining and recommending the bill.[3] But opposition to the making of treasury notes a legal tender developed at once, and it was not until after four weeks of earnest discussion that the fate of the bill was decided. What motives actuated Congress in its final decision can best be learned by study of the debate.

II. DEBATE IN CONGRESS[4]

Logically, the first point in the case of the promoters of the treasury-note bill was the proof that Congress had power under the constitution to make paper money a legal tender in the payment of debts. Foreseeing that this power

[1] SPAULDING, pp. 26, 27.

[2] H. R. bill No. 240, *ibid.*, p. 27; full text in *Congressional Globe*, 37th Cong., 2d Sess., p. 522.

[3] *Congressional Globe*, *loc. cit.*, pp. 523–6; SPAULDING, pp. 28–42.

[4] In the following section I have attempted to give an analysis of the whole discussion in both houses of Congress, rather than to show the attitude of prominent individuals. Accounts of the debate from the latter point of view are numerous. See, *e. g.:* SPAULDING, pp. 28–152; J. G. BLAINE, *Twenty Years of Congress* (Norwich, Conn., 1884), Vol. I, chap. xix; J. J. KNOX, *United States Notes*, 2d ed. (London, 1885), pp. 119–37; A. S. BOLLES, *Financial History of the United States, 1861–1885* (New York, 1886), Book I, chap. iv; J. F. RHODES, *History of the United*

would be challenged, Mr. Spaulding read an unofficial opinion of the attorney-general, Edward Bates, which was interpreted, not quite fairly, to mean that Congress could make treasury notes a legal tender since it was not forbidden to do so by the constitution.[1] To this it was answered that under the tenth amendment Congress possessed no powers except those explicitly or implicitly granted it, and therefore that no authority for making paper money a legal tender could be inferred from the silence of the constitution on the point.[2]

So conclusive was this reply that the supporters of the bill found it necessary to seek other ground for their contention by deducing the right to make paper bills legal tender from some of the powers expressly delegated to Congress. Appeal was made to the clause authorizing Congress "to make all laws necessary and proper for carrying into execution" the powers specifically granted it. Mr. Spaulding coupled this clause with the authorization to levy war. "This bill," he argued, "is a *necessary means* of carrying into execution the powers granted in the constitution 'to raise and *support* armies' and 'to provide and *maintain* a navy.'"[3] Thaddeus Stevens added the necessary clincher by saying: "Whether such necessity exists is solely for the decision of Congress."[4] Two attempts were made to over-

States, from 1850 (New York, 1895), Vol. III, pp. 561–7; J. K. UPTON, *Money in Politics*, 2d ed. (Boston, 1895), pp. 75–89; J. L. LAUGHLIN, *Report of the Monetary Commission* (Chicago, 1898), pp. 408–10; F. A. WALKER, *Money* (New York, 1891), pp. 369–73; F. A. WALKER and HENRY ADAMS, "The Legal-Tender Act," *North American Review*, April, 1870; "The Greenbacks in Congress," *Sound Currency*, Vol. III, No. 4, January, 1896.

1 *Congressional Globe*, 37th Cong., 2d Sess., Part I, p. 525; SPAULDING, pp. 15, 16. Bates's real meaning seems to be that Congress is no more prohibited from making bills of credit a legal tender than it is from issuing them, and the latter right no one contests.

2 *Ibid.* See remarks of Messrs. Pendleton, p. 550; Cowan, p. 791; Sheffield, p. 640; Thomas, p. 681; Collamer, p. 768; Pearce, p. 803; Crisfield, Appendix, p. 48; Bayard, p. 795; Conkling, p. 635; Wright, p. 662.

3 *Ibid.*, p. 524. Similar arguments were made by Messrs. Blake, p. 686; Howe, Appendix, p. 54; Stevens, p. 688.

4 *Ibid.*

throw this position. Such an argument, said Mr. Crisfield, amounts to a claim of unlimited authority; for, if one granted it, by asserting that the act was necessary "to insure public safety," Congress could enact any law, no matter how injudicious, provided it were not expressly forbidden by the constitution.[1] Mr. Pendleton took different ground. Granted, he argued, that Congress could make treasury notes a legal tender if this were necessary to pay the army, it still remained to prove that this necessity existed. He himself was unable to see the necessity in the pending case. Therefore, to him the bill was unconstitutional.[2]

A second form of the "necessary means" argument was made by Mr. Bingham, of Ohio. Congress, he said, has power to regulate commerce, and the determination of what shall be lawful tender in discharge of debts is a necessary incident of this regulation.[3] But it was answered, first, that it was a mere subterfuge to pretend that regulation of commerce was the object of the bill;[4] second, that the power of Congress over commerce extended only to "commerce with foreign nations, and among the several states, and with the Indian tribes," while a legal-tender act affected only transactions between individuals;[5] and third, that the substitution of a paper for a metallic standard, so far from "regulating and promoting" commerce, tended rather to "disturb and destroy" it.[6]

Senators Howard and Sherman elaborated a third variation of the argument. Making treasury notes a legal tender they held was one of the necessary and proper means for borrowing money.[7] Senator Collamer anticipated this contention, and replied that where power was granted to do a

[1] *Congressional Globe*, 37th Cong., 2d Sess., Appendix, p. 48. [2] *Ibid.*, p. 550.

[3] *Ibid.*, p. 637; *cf.* remarks of Mr. Kellogg, p. 679.

[4] Mr. Crisfield, Appendix, p. 49. [5] Mr. Collamer, p. 769.

[6] Mr. Crisfield, Appendix, p. 49. [7] Mr. Sherman, p. 790; Mr. Howard, p. 796.

certain thing in a certain way it was not permissible to seek inferential authority to accomplish the same end in a different manner. Now Congress was empowered to raise money first, by levying taxes, second, by negotiating loans. The issue of legal-tender notes, being neither a tax nor a loan, came under neither of these express grants; and not coming under the express grants, no authority could be inferred for it as a means of raising money.[1]

The last argument for the constitutionality of the bill — the one that found no adequate answer — was Charles Sumner's. He called attention to the fact that Congress had long been conceded the right to issue treasury notes. Reviewing the financial history of the American colonies, he showed that ten of the thirteen had at different times issued paper money, usually making it a legal tender. In America, he argued, "the legal tender was a constant, though not inseparable incident of the bill of credit." The conclusion was that the unquestioned power of issuing treasury notes carried with it the right to make the notes a legal tender.[2]

But, after spending much time and ingenuity in debating the constitutional questions raised by the legal-tender clause, the members of Congress apparently concluded that they had multiplied words to little purpose. While a few declared that constitutional scruples would prevent them from voting for the bill,[3] the more general feeling was that it would be unreasonable to decide a question of such importance upon a

[1] *Congressional Globe*, 37th Cong., 2d Sess., p. 767.

[2] *Ibid.*, pp. 797, 798. An amusingly fantastic argument for the constitutionality of the bill was made by Senator McDougall of California, who attempted to deduce the right to issue legal-tender treasury notes from the power to coin money, by showing that the word "coin" was etymologically equivalent to the word "stamp," and therefore that the right of coinage must include the right to stamp paper notes. Unfortunately for the argument, the canon of interpretation which insists that words are used in the constitution in strict accordance with their etymological significance did not commend itself to the lawyers of the Senate.— *Ibid.*, Appendix, p. 60, for his argument; with which compare the remarks of Mr. Thomas, p. 681.

[3] *E. g.*, Senators Collamer, *ibid.*, pp. 767, 770; Powell, p. 804; Saulsbury, p. 804.

doubtful technicality which could be settled only by the courts. If the measure was expedient there need be little hesitation at such a crisis in construing liberally the powers of Congress.[1] The fate of the bill was affected, then, much less by the inconclusive constitutional argument than by the debate upon the merits of the issue of legal-tender notes as a financial policy.

Considering the bill thus upon its merits, the opposition called attention prominently to the lessons of experience. Could it be shown that the resort to an inconvertible paper currency had always been attended in the past with evil results, a strong presumption would be created against the wisdom of a repetition of the experiment. Consequently rhetoric was employed to picture in vivid colors the unhappy consequences that had followed the issue of paper money by France during the Revolution,[2] by England in the Napoleonic wars,[3] by Austria,[4] and Turkey,[5] by Rhode Island[6] in colonial days, by the Continental Congress in the War of Independence,[7] and finally by the Confederate States, then fairly launched upon the paper-money policy.[8]

To break the force of these historical parallels, which told so heavily against the bill, its supporters sought to show that causes, which under different conditions had led to depreciation, would not be operative in the case of the United States in 1862. Thus, it was said, the continental notes of the American Revolution depreciated because of the poverty of the country, which offered no security for their redemption; the vastly greater wealth of the nation in 1862 would prevent a repetition of the experience.[9] The depreciation of the issues

[1] Remarks of Fessenden, *Congressional Globe*, 37th Cong., 2d Sess., p. 767; Wilson, p. 788; Alley, p. 659; Sherman, p. 791; Pike, p. 658; Campbell, p. 686.

[2] Mr. Cowan, *ibid.*, p. 792; *cf.* Sumner, p. 798; Pike, p. 657.

[3] Mr. Morrill, p. 631; *cf.* Spaulding, p. 526; Stevens, p. 689.

[4] Mr. Morrill, p. 631.

[5] Mr. Simmons, p. 794.

[6] Mr. Sheffield, p. 164.

[7] Mr. Collamer, pp. 767–8; Sumner, p. 798; *cf.* Kellogg, p. 680; Pike, p. 656.

[8] Mr. Horton, p. 665.

[9] Mr. Kellogg, p. 680.

of Louis XIV was explained on the ground that France was then exhausted by heavy taxation to maintain a profligate court.[1] The cases of the French Revolution and the Confederate States were accounted for by the fact that these governments were revolutionary.[2] Some gentlemen even denied that depreciated currencies had proved evils. "It would be far from a blunder," said Senator Howe, "to say that the 'golden age' of England was during that long period when the only currency she knew was one of irredeemable paper;"[3] and Mr. Kellogg declared the paper issues of the Revolution had increased confidence, clothed the army, and revived commerce.[4] Another supporter of the bill tried to evade the historical argument by maintaining that the true lesson of experience was that of moderate issues.[5] But no one seems to have taken these ingenious pleas very seriously, for it was easy to show that one of the striking lessons of experiments with paper money is that such moderation, which the issuer at first intends to observe, has almost invariably been soon forgotten.[6]

If the argument from experience was strongly against the bill, the cognate economic argument was hardly less so. The opponents of paper issues assumed the offensive, declaring emphatically that the proposed legal-tender notes were certain to depreciate in value. Mr. Lovejoy said:

> It is not in the power of this Congress . . . . to accomplish an impossibility in making something out of nothing. The piece of paper you stamp as five dollars is not five dollars, and it never will be, unless it is convertible into a five dollar gold piece ; and to profess that it is, is simply a delusion and a fallacy.[7]

[1] Mr. Howe, Appendix, p. 55, *Congressional Globe*, 37th Cong., 2d Sess.

[2] Mr. Kellogg, p. 680; Howe, Appendix, p. 55.

[3] Appendix, p. 55; *cf.* Spaulding, p. 526.

[4] *Ibid.*, p. 681.

[5] Mr. Pike, p. 657.

[6] Messrs. Thomas, p. 682; Cowan, p. 793; Morrill, pp. 631, 886; Pomeroy, p. 884; Collamer, p. 770; Lovejoy, 691.

[7] *Ibid.*, p. 691.

Various shifts were tried to meet this attack. Mr. Kellogg boldly asserted that the legal tender quality of the notes would prevent fluctuation of their value;[1] but more faith was put in the reply that the total wealth of the country was security for the notes, and this security being ample the value of the paper would not decline.[2] The rejoinder to this was first, that the security for the notes was not the total wealth of the people, but only such part of it as the government could obtain by taxation; and second, that though the security for ultimate redemption might be ample, the notes would nevertheless depreciate in value if the holders were unable to secure immediate payment.[3]

A different argument to show the improbability of depreciation was based by Thaddeus Stevens upon the quantity theory of money as expounded by McCulloch. "The value of legal tender notes," said he, "depends on the amount issued compared with the business of the country. If a less quantity were issued than the usual and needed circulation, they would be more valuable than gold."[4] The opponents of the bill replied, not by attacking the quantity theory, but by insisting that all experience showed that, after one issue of paper money had been made, other issues were sure to follow, until the currency became redundant and depreciated. "The experience of mankind," said Mr. Thomas, "shows the danger of entering upon this path; that boundaries are fixed only to be overrun; promises made only to be broken."[5] "The same necessity," added Mr. Pomeroy, "which now requires the amount of inconvertible paper now authorized, will require sixty days hence a similar issue, and then another, each one requiring a larger nominal amount to

[1] *Congressional Globe*, 37th Congress, 2d Sess., p. 681; *cf.* the answer of Senator Collamer, p. 767.

[2] Messrs. Spaulding, p. 524; Howe, Appendix, p. 55; Kellogg, pp. 680, 681.

[3] *Cf.* Mr. Morrill, p. 630, Thomas, p. 682.

[4] *Ibid.*, p. 668.

[5] *Ibid.*, p. 682.

represent the same intrinsic value."[1] To such assertions, backed by the weight of historical evidence, the supporters of the bill could respond only that the case of the United States would be an exception; the American government would not yield, as other governments had done, to the temptation to make further issues.[2]

Some of the more astute friends of the bill admitted the probability of a redundant currency, and relied, not on limitation of issues, but on a funding scheme to prevent depreciation. Section one of the bill provided that holders of legal-tender notes could at any time exchange them at par for 6 per cent. twenty-year bonds.[3] Under this arrangement, it was supposed, the value of the notes could never be less than that of the bonds, and, as bonds could by law not be sold for less than par, it followed that the notes could not greatly depreciate.[4] Unfortunately for the argument, even while Congress was debating the bill, bonds were selling in New York at ninety cents upon the dollar in notes of the suspended banks.[5] Hence the force of Mr. Morrill's remark: "By making our notes a legal tender we make them better for a moment than we can make our bonds, and men might be willing to exchange bonds for the notes; but notes for bonds never."[6]

Having proved to their satisfaction that the legal-tender notes would depreciate, the opponents of the bill pursued their advantage by dwelling upon the evil consequences that would result. Coin would disappear from circulation, said they, prices would rise suddenly, fixed incomes would decline,

[1] *Congressional Globe*, 37th Cong., 2d Sess., p. 884. Mr. Pomeroy, however, supported the bill when amended to provide for payment of interest in coin. *Cf.* also Collamer, p. 770; Lovejoy, p. 691; Horton, p. 664; Cowan, p. 793; Morrill, p. 631.

[2] *Cf.* the remarks of Messrs. Pike, p. 657; Hooper, p. 617; Stevens, p. 688.

[3] See text of bill, *ibid.*, p. 522, and Mr. Stevens's explanation, p. 688. *Cf.* Spaulding, p. 526.

[4] Mr. Hooper, *ibid.*, p. 617. [5] Mr. Pendleton, p. 551. [6] *Ibid.*, p. 630.

creditors be defrauded, and the widows and orphans would suffer.[1] Senator Collamer showed how depositors in savings banks would lose by depreciation,[2] and Senator Fessenden how labor would be injured by a rise of prices exceeding the rise of wages.[3] Finally, Mr. Crisfield represented forcibly the instability of a paper standard of value and the consequent danger to business.[4]

To all of this the promoters of the bill found it hard to reply. On the other hand they sought support in the contention that the country needed more money,[5] and that the government should regulate the paper currency furnished by the banks.[6] Of course the rejoinder was, first, that, granted the existence of the doubtful need of more money, the issue of a depreciated paper currency was a very bad method of supplying it; and, second, that if the bank-note currency required regulation the proper means was a reorganization of the banking system, not a legal-tender act.

Not content with showing the economic evils of a depreciated paper currency, the opponents of the bill denounced it roundly as immoral. To pay contractors and soldiers in depreciated money, they declared, was dishonorable. "The bill says to the world," asserted Mr. Horton, "that we are bankrupt, and we are not only weak, but we are not honest."[7] The injustice, however, extended not only to creditors of the government, but to all persons who would be compelled to accept in payment money of less value than that which they had contracted to receive.[8] And by thus encouraging the

[1] *Cf.* the remarks of Messrs. Pendleton, *Congressional Globe*, 37th Cong., 2d Sess., p. 551; Morrill, p. 630; Horton, p. 664; Sheffield, p. 641; Fessenden, p. 765.

[2] *Ibid.*, p. 770. *Cf.* the reply of Senator McDougall, Appendix, p. 60.

[3] *Ibid.*, p. 766.

[4] *Ibid.*, Appendix, p. 50.

[5] *Cf.* the remarks of Messrs. Alley, p. 659; Hooper, p. 617; Kellogg, p. 681.

[6] Senator Doolittle, Appendix p. 57.

[7] *Ibid.*, p. 664; *cf.* also Sumner, p. 798; Fessenden, p. 765; Crisfield, Appendix, pp. 49, 50; Pearce, p. 804.

[8] *Cf.* Messrs. Pendleton, p. 549; Thomas, p. 682. See Sherman's attempted reply, p. 790.

debtor to defraud his creditor, urged Senator Fessenden, the bill would lower the moral standards of the people.[1] To these charges, also, the promoters of the bill had little to say.

Upon the fiscal aspect of the bill the case of the opposition was hardly less clear. First, they declared, the resort to an irredeemable paper currency was a practical confession of bankruptcy, and would therefore injure the credit of the government, and make less favorable the conditions on which it could borrow. "We . . . . go out to the country," said Fessenden, "with the declaration that we are unable to pay or borrow at the present time, and such a confession is not likely to increase our credit."[2] Second, it was pointed out that the depreciation of the currency would cause the prices of everything which the government had to buy to rise, and thus would vastly increase the cost of the war. As Senator Cowan put it, the government "might as well lose 25 per cent. on the sale of her [*sic*] bonds, as to be obliged, in avoiding it, to pay 25 per cent. more for everything she buys."[3]

This discussion of the economic, moral, and fiscal consequences of issuing a legal-tender paper currency produced in Congress the feeling that under ordinary circumstances such a proposal would be indefensible. The vigor with which the opposition had presented the case against the bill made a deep impression. On the other hand, the reasoning by which the supporters of the bill had sought to establish the constitutional power of Congress to make treasury notes a legal tender was felt to be inconclusive. The force of the telling argument from experience had not been broken; the probability of depreciation had not been disproved; no adequate reply had been found to the indictment of the bill on

[1] *Congressional Globe*, 37th Cong., 2d Sess., p. 765; *cf.* Messrs. Conkling, p. 635; Horton, p. 664.

[2] *Ibid.*, p. 765. *Cf.* Messrs. Vallandingham, Appendix, p. 44; Sheffield, p. 641; Collamer, p. 769; Horton, p. 664; Crisfield, Appendix, p. 49; Willey, p. 796; Sumner, p. 798; Thomas, p. 682.

[3] *Ibid.*, p. 793; *cf.* the remarks of Sheffield, p. 641, and Morrill, p. 630.

moral grounds; and, finally, it had not been denied that resort to paper issues would injure the credit of the government and increase the cost of the war. So generally was the objectionable character of the measure realized that Senator Fessenden could say:

> All the opinions that I have heard expressed agree in this: that only with extreme reluctance, only with fear and trembling as to the consequences, can we have recourse to a measure like this of making our paper a legal tender in payment of debts.[1]

And yet an argument was found that overcame the "extreme reluctance" of a majority of the members and induced them to vote for the bill. This argument was the plea of absolute necessity. As has been seen, it was to necessity that Mr. Spaulding had appealed in justification of his first draft of the legal-tender bill.[2] In opening the debate in Congress he repeated the argument with emphasis. "The bill before us," said he, "is a war measure, a measure of *necessity* and not of choice, presented . . . . to meet the most pressing demands upon the Treasury."[3] The cry of necessity was taken up by the other supporters of the bill, who relied upon it to meet all the objections urged by the opposition.[4] How effective a plea it was is shown by the influence it had upon those who appreciated the ills of a paper currency. "Beneficent as this measure is, as one of relief," said Mr. Alley, "nothing could induce me to give it sanction but uncontrollable necessity."[5] "I shall . . . . support the bill," said Mr. Doolittle, "as a measure of war necessity, with more misgivings as to its effect at home and abroad, than of any other measure for which I have given my vote in this body."[6]

1 *Congressional Globe*, 37th Cong., 2d Sess., p. 763.

2 Mr. Spaulding's letter quoted, p. 44, above.

3 *Congressional Globe*, 37th Cong., 2d Sess., p. 523.

4 *Cf.* the remarks of Messrs. Campbell, p. 686; Walton, p. 692; Edwards, p. 684; Stevens, p. 687; and of Senators Sherman, p. 789; Howe, Appendix, p. 55; McDougall, Appendix, p. 58.

5 *Ibid.*, p. 659.

6 *Ibid.*, Appendix, p. 58.

That the assertion of necessity might carry the added force of official sanction, Secretary Chase was induced to send a note to the chairman of the Committee of Ways and Means to be read to the House. He wrote:

I have felt, nor do I wish to conceal that I now feel, a great aversion to making anything but coin a legal tender in payment of debts. It has been my anxious wish to avoid the necessity of such legislation. It is, however, at present impossible, in consequence of the large expenditures entailed by the war, and the suspension of the banks, to procure sufficient coin for disbursements, and it has therefore become indispensably necessary that we should resort to the issue of United States notes.[1]

This letter made the bill an "administration measure," and so was an important factor in its success. Desire to support the government at all costs led members to whom an irredeemable currency was very repugnant to vote for the bill when the secretary of the treasury declared it to be necessary. "I have . . . . had great doubt as to the propriety of voting for this bill . . . ." said Mr. Hickman, "but, being assured . . . . that the Treasury, and perhaps the Administration, regard this as a governmental necessity, I am disposed to waive the question of propriety or expediency, and to vote for it as a necessity."[2]

[1] *Congressional Globe*, 37th Cong., 2d Sess., p. 618. *Cf.* Mr. Chase's letter to Spaulding, in the latter's *History*, p. 59; and McCulloch, *Men and Measures of Half a Century* (New York, 1889), pp. 170, 171.

[2] *Congressional Globe*, 37th Cong., 2d Sess., p. 690. *Cf.* Sumner's conclusion: "Surely we must all be against paper money — we must all insist upon maintaining the integrity of the Government — and we must all set our faces against any proposition like the present, except as a temporary expedient, rendered imperative by the exigency of the hour. If I vote for this proposition it will be only because I am unwilling to refuse to the Government, especially charged with this responsibility, that confidence which is hardly less important to the public interests than the money itself. Others may doubt if the exigency is sufficiently imperative, but the secretary of the treasury, whose duty it is to understand the occasion, does not doubt. In his opinion the war requires this sacrifice. . . . . Your soldiers in the field must be paid and fed. Here there can be no failure or postponement. A remedy which at another moment you would reject is now proposed. Whatever may be the national resources, they are not now within reach, except by summary process. Reluctantly, painfully, I consent that the process should issue" (pp. 799, 800). See also McDougall, Appendix, p. 58.

In replying to the plea of necessity, the opposition candidly admitted it would be better to issue a forced currency than to stop payment, provided there were no alternative. "If the necessity exists," said Senator Fessenden, "I have no hesitation upon the subject and shall have none. If there is nothing left for us to do but that, and that will effect the object, I am perfectly willing to do that."[1] But that such was the case was emphatically denied. "It has been asserted . . . . with the utmost apparent sincerity," said Mr. Horton, "that this is a measure not of choice, but of necessity. But Mr. Chairman, that assertion is only reiterated, not proved. Where is the proof that this is a matter of necessity? There may be proofs abundant, but they have not been produced."[2]

Not only did the opposition deny the necessity, but they were ready also with suggestions of other means of securing the needed funds. One suggestion was adequate war taxation. "Not a dollar of tax has been raised," said Mr. Thomas, "and yet we are talking of national bankruptcy, and launching upon a paper currency. I may be very dull, but I cannot see the necessity, or the wisdom, of such a course."[3] It was by this time generally acknowledged that the omission to impose heavy taxes at the extra session of July, 1861, was a serious blunder which Congress should repair as soon as possible.[4] But the supporters of the bill argued[5] that the pending situation could not be met by taxation, for the needs of the treasury were too pressing to wait until new taxes could be assessed and collected.

[1] *Congressional Globe*, 37th Cong., 2d Sess., p. 764.

[2] *Ibid.*, p. 663; *cf.* pp. 664, 665.

[3] *Ibid.*, p. 682; *cf.* the remarks of Roscoe Conkling, p. 633; Wright, p. 663; Collamer, pp. 770, 771; Bayard, p. 796.

[4] A joint resolution to raise $150,000,000 per annum by taxation had been adopted by a vote of 134 to 5 in the House, January 15, and 39 to 1 in the Senate on the 17th. —*Ibid.*, pp. 349, 376.

[5] *E. g.*, see remarks of Mr. Walton, *ibid.*, p. 692.

To this the rejoinder was made: If it will take too long to wait for the proceeds of taxes, let the government supply its immediate wants by selling bonds at their market value, and in the meantime frame a permanent system of taxation that will yield an adequate revenue.[1] This plan was the same that the delegation of bankers had urged upon the secretary and the committees of Congress,[2] and it encountered the same opposition. Senator Howe was unwilling, as Mr. Spaulding had been, that government bonds should be sold below par. "The experience of half a century," said he, "has demonstrated that the use of money is not worth more than six per cent.; that sum the Government ought to pay."[3] Senator Fessenden replied: "Money in the market is always worth what it will sell for. It is an article of merchandise like anything else, and the Government has no reason to suppose, unless it can offer much better security, that it should get money at a better rate than anybody else."[4]

But there were other men who, while apparently ready to admit that government need not always insist on receiving quite par for its bonds, still believed that under existing circumstances the discount demanded by lenders would be ruinously high. "I maintain," said Thaddeus Stevens, "that the highest sums you could sell your bonds at would be 75 per cent. payable in currency, itself at a discount. That would produce a loss which no nation . . . . could stand a year."[5]

Of course it was not possible without offering a loan to determine precisely at what rates the government could sell its bonds; but the opponents of the bill believed that Mr.

[1] See the speeches of Mr. Lovejoy, p. 691; and Senators Cowan, p. 793, and Bayard, p. 796.

[2] See p. 48, above.

[3] *Congressional Globe*, 37th Cong., 2d Sess., Appendix, p. 56.

[4] *Ibid.*, p. 763.

[5] *Ibid.*, p. 689; *cf.* the remarks of Messrs. Edwards, p. 683, and Pike, p. 656.

Stevens and Mr. Spaulding exaggerated when they predicted that the price realized would range between 50 and 80.[1] Should a plan of finance based upon taxation heavy enough to inspire confidence in the management of the treasury be adopted, they were convinced that the government could secure loans without serious sacrifice.[2] And further, their fiscal argument showed that an increase in the cost of the war would not be avoided by the rival plan of issuing an inconvertible paper currency.[3]

Still a third alternative was proposed by the opposition—the issue of treasury notes without the legal-tender quality. This suggestion was embodied in the three rival plans introduced into the House as substitutes for the bill.[4] The discussion of their merits naturally elicited debate upon the efficacy of the legal-tender clause. The supporters of the bill were ready enough with assertions of the importance of the clause to the success of the measure;[5] but they found it difficult to explain precisely what its value was. One said, "By making these notes a legal tender we prevent the money sharks from robbing our soldiers of their hard earnings."[6] Another argued that unless the United States notes were made a legal tender, the banks would seek to depreciate them in order to retain the field of circulation for their own issues.[7] A third declared, "If we make the government issues a legal tender, the demand for specie will be so limited that they will maintain their value."[8] Finally, Senator Sherman argued that the banks would not receive the government notes unless compelled to do so by the legal-tender clause, and that if not received by the banks as current funds

1 *Cf.* Mr. Spaulding, *Congressional Globe*, 37th Cong., 2d Sess., p. 524.

2 *Cf.* the remarks of Roscoe Conkling, p. 634, and of Senator Cowan, p. 793.

3 P. 60, above.

4 P. 75, below.

5 *E. g.*, Mr. Pike, *Congressional Globe*, 37th Cong., 2d Sess., p. 657.

6 Mr. Blake, p. 686; *cf.* the similar remarks of Messrs. Edwards, p. 683, and Shellabarger, p. 690; Campbell, p. 687; and of Senator Henry Wilson, p. 788.

7 Mr. Kellogg, p. 681.

8 Mr. Campbell, p. 687.

the notes would become hopelessly depreciated.[1] In response Senator Fessenden pointed to the clause authorizing the subtreasuries to receive the notes on deposit at 5 per cent. interest. This clause would make discrimination against the notes impracticable, he argued; for should the banks refuse to receive notes as deposits they would lose business, because the holders would prefer to deposit with the subtreasuries, which would pay 5 per cent. interest instead of with banks.[2]

If these attempts to prove the utility of the legal-tender clause seem rather weak, so do the criticisms urged by the opposition. The advocates of the rival bills proposing to issue treasury notes without the legal-tender quality might have been expected to dwell upon the fact that their plans left the standard of value undisturbed, and so avoided a depreciation that would unsettle business, lower real wages, defraud creditors, and increase the cost of all supplies government had to buy. Instead, they attempted only to show that the legal-tender clause would impair faith in the paper currency. "The fair inference is in the mind of every man, however stupid," said Senator Cowan, "that you yourselves first doubted the validity of it, and that, therefore, you attempted to give it this quality of paying debts perforce, to compensate it for the lack of essential value."[3]

From this review it is clear that the position of those who urged the argument of necessity for the legal-tender bill in Congress betrayed the lack of consistency noticed in Mr. Spaulding's reply to the bank delegates.[4] When the opposition suggested that the wants of the treasury could be met either by borrowing or by issuing treasury notes not a legal tender, it was incumbent on those who mantained the position that the bill was "a measure not of choice but of neces-

[1] *Congressional Globe*, 37th Cong., 2d Sess., pp. 790, 791. [2] *Ibid.*, p. 766.

[3] *Ibid.*, p. 792; *cf.* the remarks of Messrs. Crisfield, Appendix, p. 50; and of Senators Fessenden, p. 766; and Simmons, p. 794.

[4] P. 49, above.

sity" to deny the possibility of securing funds by these methods. But such a denial was not attempted. Instead they tried to show that the issue of an irredeemable paper currency was a better method of securing means than borrowing at a discount or issuing treasury notes not a legal tender. It is curious to note the naïveté with which the most strenuous promoters of the legal-tender bill asserted in one breath that it was a measure of sheer necessity, and in the next breath admitted the existence of alternatives. Mr. Spaulding himself said after emphasizing the necessity: "We have this alternative, either to go into the market and sell our bonds for what they will command, or to pass this bill."[1] And Thaddeus Stevens, who began by asserting the necessity, shifted, before concluding, to this position: "Here, then, in a few words lies your choice. Throw bonds at 6 or 7 per cent. on the market, ... or issue United States notes."[2] Obvious as is the contradiction, the opposition failed to call attention prominently to it. By thus allowing the logic of the argument from necessity to pass unchallenged, they left room for the impression to arise that the paper issues of the Civil War can hardly be made the subject of serious criticism, because "necessity knows no law."

But while Mr. Spaulding and his fellows were strenuous in protesting the necessity of the legal-tender act as a measure of immediate relief, they were careful to state that it was intended to be temporary, and not to inaugurate a regular paper-money policy. "When peace is secured," said Mr. Spaulding, "I will be among the first to advocate a speedy return to specie payments."[3] Fessenden dwelt on the point at length. He said:

[1] *Congressional Globe*, 37th Cong., 2d Sess., p. 524.

[2] *Ibid.*, p. 689; *cf.* the remarks of Mr. Blake, p. 686, and the divergent views as to the nature of the alleged necessity expressed by Mr. Hooper, p. 617, and by Senator Sherman, p. 791.

[3] *Ibid.*, p. 526. This promise was well kept. See the prefaces of SPAULDING'S *History*.

> The . . . . secretary of the treasury . . . . has declared that in his judgment [the bill] is, and ought to be, but a temporary measure, not to be resorted to as a policy, but simply on this single occasion, because the country is driven to the necessity of resorting to it. I have not heard anybody express a contrary opinion, or, at least, any man who has spoken on the subject in Congress. The chairman of the committee of Ways and Means, in advocating the measure, declared that it was not contemplated, and he did not believe it would be necessary, to issue more than the $150,000,000 of treasury notes made a legal tender provided by this bill. All the gentlemen who have spoken on the subject, and all pretty much who have written on the subject, except some wild speculators in currency, have declared that as a policy, it would be ruinous to any people; and it has been defended, as I have stated, simply and solely upon the ground that it is to be a single measure, standing by itself, and not to be repeated.[1]

Similar and hardly less emphatic statements were made by other members of Congress.[2] If any one possessed such ideas of the beneficence of an irredeemable paper currency as afterward animated members of the Greenback party, he kept them to himself.

III. ATTITUDE OF SECRETARY CHASE

In discussions of the financial policy pursued by the federal government the impression soon gained currency that the legal-tender acts were unavoidable necessities. This impression was deepened by the fact that when the unhappy consequences of the laws began to make themselves felt, members and friends of the administration took the ground that, however deplorable in its effects, such legislation had been inevitable from the beginning of the war.[3] After peace

1 *Congressional Globe*, 37th Cong., 2d Sess., p. 764.

2 *Cf.* remarks of Morrill, *ibid.*, p. 631; Pomeroy, p. 884.

3 *Cf.* Lincoln's message to Congress, December 1, 1862, *Complete Works*, ed. NICOLAY AND HAY, Vol. II, p. 264; letters of Seward and Stanton in SPAULDING'S *History*, introduction to 2d ed., pp. 27, 29. A number of letters of like tenor from other men of prominence are given in Spaulding's Introduction and Appendices.

was restored this became the common doctrine of the Republican party. It is a very notable fact, however, that Secretary Chase — the one man most conversant with the financial situation of the government in the winter of 1861–62 — came afterward to the conclusion that the passage of the legal-tender bill was a blunder. His attitude toward the measure is worthy of careful attention.

Apparently the sudden suspension of specie payments bewildered Mr. Chase for a time. It seemed to make necessary a recasting of his financial program,[1] and for the moment he was at a loss what to do. The only man in official circles who had a definite plan in mind was Spaulding, and while others hesitated, he pushed forward the simple though crude expedient of issuing legal-tender notes most vigorously. All Chase's traditions and all his official utterances committed him to opposition. But not knowing precisely how to avoid the measure, he promoted the meeting between the bankers from New York, Boston, and Philadelphia, and the financial committees of House and Senate, in the hope that some feasible plan for raising funds without resort to legal-tender notes might be agreed upon.[2] His hopes were destroyed by the unwillingness of the Congressmen to consent to the sale of bonds at their market price — an unwillingness shared in some measure by most of the opponents of the legal-tender bill in Congress.[3] After this disappointment the secretary of the treasury appears to have surrendered the lead to the Committee of Ways and Means. He could formulate no plan which commanded the

[1] *Cf. Report of the Secretary of the Treasury*, December, 1862, p. 7.

[2] See sec. i of the present chapter.

[3] All of the substitutes for the legal-tender bill proposed in the House provided that the bonds to be issued should not be sold below par. See p. 75 below. There were few men who sympathized with Senator Cowan's vigorous declaration that he preferred a "shave of forty per cent." upon bonds to an inconvertible paper currency.—*Congressional Globe*, 37th Cong., 2d Sess., p. 793.

confidence of others, and so acquiesced unwillingly in what the energetic Mr. Spaulding proposed.[1]

When Spaulding sent him the legal-tender bill for revision, Chase returned it with a letter, dated January 22, expressing his exceeding regret that it was found necessary to resort to a legal-tender act, but expressing also his hearty desire "to co-operate with the committee [of Ways and Means]."[2] This letter was regarded by a majority of the committee as "non-committal on the legal-tender clause." So they sought and "after considerable delay" obtained a more explicit approval of the bill as a measure of necessity, part of which was read to Congress.[3]

Chase's feeling at this time is best indicated by the frank letter which he sent to Spaulding February 3:

> Mr. Seward said to me on yesterday that you observed to him that my hesitation in coming up to the legal-tender proposition embarrassed you, and I am very sorry to observe it, for my anxious wish is to support you in all respects.
>
> It is true that I came with reluctance to the conclusion that the legal-tender clause is a necessity, but I came to it decidedly, and I support it earnestly. I do not hesitate when I have made up my mind, however much regret I may feel over the necessity of the conclusion to which I come.[4]

It is clear from these letters that Spaulding and not Chase was the real financial leader in the critical months of January and February, 1862.[5] Spaulding's position was recognized by a colleague in the House, who referred to him as "the able and distinguished Representative who has

[1] It should be noted that Chase was daily receiving letters from business men whose views he was bound to consider, urging him to agree to the treasury-note bill. But a small minority of his correspondents seem to have stood out against the legal-tender clause.—*Cf.* HART, *S. P. Chase*, pp. 250, 251.

[2] SPAULDING, p. 27.

[3] *Ibid.*, p. 45 and p. 62 above.

[4] SPAULDING, *History*, p. 59. *Cf.* Chase's letter of similar tenor written the next day to Bryant.—WARDEN, *Life of Chase*, p. 409.

[5] *Cf.* Chase's report of December, 1862, pp. 8, 9.

originated this measure and carried it triumphantly over the Administration and through Congress."[1]

But while harried by the unaccustomed perplexities of his position, Chase yielded to Spaulding and gave an official sanction to the bill, it did not commend itself to his calmer judgment. His later views are stated at length in a dissenting opinion which he rendered, as Chief Justice, upon the "Legal Tender Cases," in December, 1870. Of his own course as secretary of the treasury, he said:

He thought it indispensably necessary that the authority to issue these notes should be granted by Congress. The passage of the bill was delayed, if not jeoparded, by the difference of opinion which prevailed on the question of making them a legal tender. It was under these circumstances that he expressed the opinion, when called upon by the Committee on Ways and Means, that it was necessary. . . . . Examination and reflection under more propitious circumstances have satisfied him that this opinion was erroneous, and he does not hesitate to declare it. . . . . Was the making of the notes a legal tender necessary to the carrying on the war? In other words, was it necessary to the execution of the power to borrow money? . . . . If the notes would circulate as well without as with this quality it is idle to urge the plea of such necessity. But the circulation of the notes was amply provided for by making them receivable for all national taxes, all dues to the government, and all loans. This was the provision relied upon for the purpose by the secretary when the bill was first prepared, and his reflections since have convinced him that it was sufficient. . . . . In their legitimate use the notes are hurt, not helped, by being made a legal tender. The legal-tender quality is only valuable for purposes of dishonesty. Every honest purpose is answered as well and better without it.

We have no hesitation, therefore, in declaring our conviction that the making of these notes a legal tender, was not a necessary or proper means to the carrying on war or to the exercise of any express power of the government.[2]

[1] Mr. Pomeroy.—*Congressional Globe*, 37th Cong., 2d Sess., p. 884.

[2] 12 WALLACE, 576-9.

Competent critics have usually been inclined to accept Chase's later in preference to his earlier opinion. They have held that the treasury crisis which rendered the argument of necessity plausible need not have occurred had Congress adopted a more vigorous policy of taxation at its extra session in July and August, 1861. Tax laws then enacted might not have added greatly to the revenue before the close of the year, but they would have strengthened the credit of the government and so enabled it to borrow more freely and on better terms.

But though this failure to tax adequately was unfortunate, it was not unnatural. The secretary of the treasury, with whom the initiative rested, was inexperienced and was devoting a large part of his attention to military matters.[1] Moreover, the Union leaders feared that the temper of the North was not firm enough to submit cheerfully to the onerous burden of a heavy federal income tax or high internal duties. Such taxation had been unknown for more than a generation; the Republican party was young, composed of heterogenous elements not yet completely fused, and led by men not sustained by consciousness of unhesitating popular support. Realizing their dependence upon public opinion for success, it is not strange that Mr. Lincoln's administration hesitated to take steps likely from all precedent to prove unpopular.[2]

Perhaps even more important in explaining the failure to tax heavily at the outset of the war was the confident expectation of its early end. Even in February, 1862, Justin Morrill, one of the firmest opponents of the legal-tender clause, could say in rhetorical strain:

The ice that now chokes up the Mississippi is not more sure to melt and disappear with the approaching vernal season, than are

[1] *Cf.* HART, *S. P. Chase*, pp. 211–14.

[2] *Cf.* M. B. FIELD, *Memories of Many Men and of Some Women*, 1874, pp. 255, 278; HART, *op. cit.*, p. 237.

the rebellious armies upon its banks when our western army shall break from its moorings, and, rushing with the current to the Gulf, baptize as it goes in blood the people to a fresher allegiance. . . . . We can close this war by the 30th day of July next as well as in thirty years.[1]

Had such optimistic expectations been realized, Chase's plan of raising by taxation means sufficient only for ordinary expenditures, interest, and a sinking fund need have caused no serious disorder in the finances.[2]

But, granting that a mistake was made in not levying heavier taxes at the extra session of Congress, the question still remains: Was the issue of legal-tender treasury notes necessary to relieve the treasury from the embarrassments existing in January and February, 1862? Certainly there was no such pressing necessity as Spaulding, for example, asserted in the first panic. His letter of January 8, quoted above, declares that the government "will be out of means to pay the daily expenses in *about thirty days*."[3] But it was forty-eight days before the legal-tender act was passed, and over thirty-four days more before the first notes were issued. None of the legal-tender notes were paid out until April,[4] three months after the treasury had suspended specie payments. Whatever were the immediate needs of the treasury, then, they were supplied from other sources.[5] Had these three months been utilized energetically in passing a

[1] *Congressional Globe*, 37th Cong., 2d Sess., p. 630. *Cf.* the similar remarks of Fessenden, *ibid.*, p. 765, Chandler, p. 774, and Simmons, p. 794. The most impressive evidence of confidence in an early peace, however, is the issue of General Order No. 33 by the adjutant general, April 3, 1862, stopping the enlistment of fresh troops.—See Rhodes, *History of the United States*, Vol. III, p. 636.

[2] *Cf.* Chase's discussion of the question in his report of December, 1863, pp. 10–12.

[3] Spaulding, p. 17; *cf.* his opening speech in the House, *Congressional Globe*, 37th Cong., 2d Sess., p. 524.

[4] The New York *Times* of April 7, 1862, reports that "the first instalment of United States notes . . . . was received at the subtreasury in this city Saturday morning (April 5)." *Cf.* R. A. Bayley, *National Loans of the United States* (Washington, 1881), p. 157.

[5] See chap. iii, sec. i, p. 88, below.

few simple sections of an internal revenue tax act, imposing duties on whiskey, beer, and tobacco, and in organizing machinery for the sale of bonds, there seems to be slight reason for believing that the government would have failed to obtain sufficient funds, particularly when account is taken of the improvement of credit caused by the military successes of the winter and spring.[1]

After all, discussion of the "necessity" of the legal-tender act is rather beside the point. For no one, not even Stevens and Spaulding, denied the possibility of borrowing, provided the government was ready to sell its bonds at their market price. The real question is, was the making of United States notes a legal tender preferable to selling bonds at a discount? Upon this question the following chapters will throw some light by showing what were the consequences of the course pursued, both for the people and for the government.[2]

IV. PASSAGE OF THE ACT

The debate upon the legal-tender act, a logical analysis of which has been presented in a preceding section, began in the House of Representatives January 28, 1862. Mr. Stevens and Mr. Spaulding pushed the measure vigor-

[1] *Cf.* Part II, chap. iii, sec. iii, below.

[2] On the question of necessity see SIMON NEWCOMB, *Critical Examination of Our Financial Policy* (New York, 1865), chap. vii; J. K. UPTON, *Money in Politics*, 2d ed. (Boston, 1895), p. 103; W. G. SUMNER, *History of American Currency* (New York, 1875), pp. 197–209; S. T. SPEAR, *The Legal-Tender Acts* (New York, 1875), chap. xii; F. W. TAUSSIG, p. 537 of *The United States of America*, ed. N. S. Shaler, Vol. II (New York, 1894); C. F. DORÉ, *Die Papier-währungswirthschaft der Union*, Berlin, 1877; C. VON HOCK, *Die Finanzen und die Finanzgeschichte der Vereinigten Staaten* (Stuttgart, 1867), pp. 471, 472; CHARLES A. MANN, *Paper Money the Root of Evil* (New York, 1872), pp. 147, 148; NICOLAY AND HAY, *A. Lincoln: A History* (New York, 1890), Vol. VI, chap. xi; GEORGE B. BUTLER, *The Currency Question*, New York, 1864; J. F. RHODES, *History of the United States*, Vol. III, pp. 556, 557; HUGH MCCULLOCH, *Men and Measures of Half a Century* (New York, 1888), p. 175; HART, *S. P. Chase*, 1899, pp. 248–51; HENRY C. ADAMS, *Public Debts* (New York, 1887), pp. 126–33; HENRY ADAMS, "The Legal Tender Act," *Historical Essays*, New York, 1891; and especially DON C. BARRETT, "The Supposed Necessity of the Legal Tender Paper," *Quarterly Journal of Economics*, Vol. XVI, pp. 323–54.

ously. Three bills were proposed as substitutes by the opposition. One, introduced by Mr. Vallandingham, provided (1) for the issue of $150,000,000 of treasury notes, receivable for government dues, bearing no interest, exchangeable for bonds, but not a legal tender; (2) for the sale of $200,000,000 of 6 per cent., twenty-year bonds—at rates not less than par.[1] A second, offered by Roscoe Conkling, proposed (1) to sell $500,000,000 of 6 per cent. twenty-year bonds at rates not less than the equivalent of par for 7 per cent. stocks; (2) to allow the secretary of the treasury at his discretion to issue $200,000,000 of one-year treasury notes, either bearing no interest or interest at $2\frac{1}{2}$ per cent., and not legal tender, in place of an equivalent amount of bonds.[2] Finally, Mr. Horton's and Mr. Morrill's substitute, favored by one-half of the Committee of Ways and Means, authorized (1) the issue of $100,000,000 treasury notes, bearing interest at 3.65 per cent., receivable for government dues except duties on imports, exchangeable at par for all bonds issued, and not a legal tender; (2) the sale of $200,000,000 of 7.3 per cent., ten-year bonds, and of $300,000,000 of 6 per cent., twenty-four-year bonds at prices not less than par; (3) the payment of interest on the bonds in coin.[3]

Nine days after the debate began a vote was taken on the substitution of the third of these measures for the legal-tender bill. It resulted 55 yeas to 95 nays.[4] Then the vote was taken on the legal-tender bill itself, and it was passed by 93 to 59—a majority of 34.[5] An analysis of the vote upon the legal-tender clause shows that it was not a strict party division. Of the 95 votes for the legal-tender

[1] *Congressional Globe*, 37th Cong., 2d Sess., p. 614.

[2] *Ibid.*, p. 615.

[3] *Ibid.*, p. 693; SPAULDING, pp. 92–4.

[4] *Congressional Globe*, 37th Cong., 2d Sess., p. 695; SPAULDING, p. 94.

[5] *Congressional Globe*, *loc. cit.*; SPAULDING, pp. 95, 96.

clause 8 were cast by Democrats and 3 by "old line Whigs." With the 25 Democrats who voted against the clause were 7 "old line Whigs" and 23 Republicans. Nor is a marked sectional division of the vote apparent. Of the members from New England States 16 voted for and 11 against the legal-tender clause; of the delegations from the Middle States the corresponding votes were 36 and 18; of the Southern States 7 and 10; of the Central States 27 and 13; and of the Western States 9 and 3. The most noticeable feature of the vote was the number and standing of the regular supporters of the administration who on this occasion sided with the opposition. Among them were Roscoe Conkling, Justin S. Morrill, Valentine B. Horton, Edward H. Rollins, Benjamin F. Thomas, and Owen Lovejoy.

As the bill went to the Senate, it provided for the issue of $150,000,000 of United States legal-tender notes; but of this sum $50,000,000 were intended to take the place of the like sum of "old demand notes" authorized at the extra session of Congress in July, 1861.[1] A very important amendment was made by the Senate finance committee. In order to "raise and support the credit of the government obligations," they proposed to pay the interest on the public debt in coin. The committee had considered the advisability of making customs duties payable in specie to obtain the coin necessary for interest; but they finally preferred to set aside the proceeds of sales of public lands, confiscations of rebel property and import duties as a fund to be used for the purpose. To provide for the possible case when this fund would be insufficient, the secretary of the treasury was authorized to sell bonds at their market price to get coin.[2]

[1] For the text of the bill as it passed the House see SPAULDING, pp. 96–8.

[2] See Senator Fessenden's speech explaining the House bill and the committee's amendments, *Congressional Globe*, 37th Cong., 2d Sess., p. 763.

In this modified form the bill passed the Senate by a vote as devoid of partisan or of sectional character as had been the vote in the House. A motion to strike out the legal-tender clause failed by a majority of 5—17 yeas to 22 nays.[1] Of the yeas nine were Republicans—Senators Anthony of Rhode Island, Collamer and Foot of Vermont, Fessenden of Maine, King of New York, Cowan of Pennsylvania, Foster of Connecticut, and Willey of Virginia. On the other hand, three Democrats—Senators McDougall of California, Rice of Minnesota, and Wilson of Missouri—voted for the clause. But when it was seen that the bill would pass, legal-tender clause and all, the final vote was 30 for and 7 against it.[2] Of the seven, three were Republicans, three Democrats, and one an "old line Whig."

The House refused to concur in the Senate amendment for the payment of interest on the public debt in coin. Mr. Spaulding declared that such an arrangement would create intolerable discrimination between different classes of government creditors. To pay the army in depreciated paper money and the money lender in coin was unjust to the soldier risking his life on the field of battle.[3] "It makes," said Mr. Stevens, "two classes of money—one for the banks and brokers, and another for the people."[4] Further, argued Mr. Hooper, the refusal to use United States notes for interest would be an admission in advance of a difference in value between paper and coin, the effect of which would be to discredit the government's issues.[5] Mr. Pomeroy replied first, that so far from exaggerating the depreciation of paper currency, the amendment would diminish it; for coin interest would tend to increase the value of bonds and so indirectly of the notes which were to be exchangeable for bonds

[1] *Ibid.*, p. 800.
[2] *Ibid.*, p. 804.
[3] *Ibid.*, pp. 881–3.
[4] *Ibid.*, p. 900.
[5] *Ibid.*, p. 899.

at par; and second, that only by paying interest in coin could the government borrow on favorable terms.[1]

To terminate the disagreement conference committees were appointed — for the Senate, Fessenden, Sherman, and Carlisle;[2] for the House, Stevens, Horton, and Sedgwick[3] — and a compromise was agreed upon. Interest was to be paid in coin, but the method of obtaining the coin was changed. Instead of pledging receipts from customs, sales of public lands and confiscations, with an ultimate resort to selling bonds at the market price, it was decided to make import duties payable in specie.[4] Both Senate and House concurred in this change,[5] and the bill received the approval of President Lincoln, February 25, 1862.[6]

In its final form the act authorized the issue of $150,000,-000 of United States notes in denominations not less than five dollars. Fifty millions of this sum was in place of the "old demand notes," which were to be withdrawn as rapidly as practicable. The notes were declared to be "lawful money and a legal tender in payment of all debts, public and pri-

1 *Congressional Globe*, 37th Cong., 2d Sess., p. 884; *cf.* similar arguments of Messrs. Morrill, p. 886, and C. B. Calvert, p. 886.

2 *Ibid.*, p. 899.

3 *Ibid.*, p. 909.

4 Text of report, *ibid.*, p. 938.

5 *Ibid.*, pp. 929 and 939 respectively.

6 12 *Statutes at Large*, p. 345. In the version of the financial history of the war later current with the greenback party, this limitation of the legal-tender quality of United States notes, by using coin for interest on the public debt and for customs dues, was represented as a serious blunder, marring the otherwise perfectly symmetrical paper-money system. *E.g.*, see G. F. WILSON, *A Practical Consideration of the Currency of the United States*, 1874, p. 5; PLINY FREEMAN, *Correspondence on National Finance*, 1875; H. C. BAIRD, *Money and Its Substitutes*, 1876, p. 14; PETER COOPER, *Political and Financial Opinions*, 1877, p. 9. Indeed, the charge was often more serious. It was said that the "conspiracy" of bank delegates who visited Washington in January, 1862, "corruptly or not" used their influence to induce the secretary of the treasury and the Senate to "mutilate" the House bill by inserting the "exception clause" limiting the full legal-tender power of the United States notes. See, *e. g.*, J. G. DREW, *Our Money Muss*, 1874; W. A. BERKEY, *The Money Question*, 1876, pp. 176–9; NEVAH, *The "Legal-Tender" Acts*, [date ?], pp. 3–7; JESSE HARPER, *Thirty Years' Conflict*, 1881, p. 13; HENRY S. FITCH, *Speech in the State Convention of the National Currency Party of California*, 1877, pp. 9–21; MRS. S. E. V. EMERY, *Seven Financial Conspiracies*, 1887, chap. ii. Thaddeus Stevens in a measure countenanced such views. See his speech of June 23, 1864, *Congressional Globe*, 38th Cong., 1st Sess., pp. 3212 ff.

vate, within the United States, except duties on imports and interest on the public debt," which were expressly made payable in coin. Further, the notes were exchangeable at any time in sums of fifty dollars or multiples of fifty for 6 per cent. five-twenty bonds, $500,000,000 of which were authorized by the second section. Sec. 4 provided that holders of the notes might deposit them with any designated depository of the United States, and receive 5 per cent. interest. But such deposits could not be made for less than thirty days and ten days' notice was required for withdrawal. The sum of these temporary deposits was limited to $25,000,000. By sec. 5 the coin received from duties on imports was set apart as a special fund to be applied, first, to the payment in specie of interest on the public debt; second, to the purchase of 1 per cent. of the entire debt yearly to be set aside as a sinking fund; third, to the general expenses of the government, if any residue remained.

The attitude of the general public toward the legal-tender act was divided between doubt and hesitation on the part of a few who appreciated clearly the evils of an irredeemable paper currency, and cheerful acceptance on the part of those who felt that scruples, justifiable under ordinary circumstances should not be allowed to interfere with decisive action in the face of such a crisis. Organized opposition to the bill by the business community ceased with the failure of the bankers' convention. The opinions expressed by practical financiers showed marked diversity — a fact that was not without influence upon the fate of the bill in Congress. Senator Sumner said of the advice given by business men: "Some tell us that the legal tender will be most beneficent; others insist that it will be dishonorable and pernicious. Which shall we follow?"[1] On the other hand,

[1] *Congressional Globe*, 37th Cong., 2d Sess., p. 798; *cf.* remarks of Senator Fessenden, *ibid.*, p. 766.

Senator Henry Wilson received a letter signed by several Massachusetts firms of high standing, saying they did "not know a merchant in the city of Boston engaged in active business" who was not in favor of the legal-tender clause.[1] Of greater weight was the resolution adopted by the New York Chamber of Commerce that "the present financial condition of the government and of the country requires the immediate passage of the [legal-tender] bill."[2] Mr. Stevens and Mr. Spaulding said that similar encouragement was received by the promoters of the bill from the boards of trade in Boston, Philadelphia, Buffalo, Cincinnati, Louisville, St. Louis, Chicago, and Milwaukee.[3] "I have never known any measure," said Mr. Spaulding, "receive a more hearty approval from the people."[4]

Newspapers showed similar differences of opinion. When the proposal was made to issue legal-tender treasury notes, the New York *Tribune* said, "We ponder and hesitate."[5] Mr. Greeley believed that "heavy taxing, light stealing, and hard fighting," would remove the alleged necessity for the bill,[6] and advocated "a stirring appeal to the people for a Patriotic Loan of Two or Three Hundred Millions."[7] But by the middle of February he concluded that, "there has been so much delay and hesitation and vacillation, that it is possible that no other means of giving immediate relief to the Treasury now remains."[8] He finally acquiesced with an ill grace in the enactment of the bill, and supported very vigorously the amendments of the Senate making interest payable in coin.[9] More decided opposition to the legal-

1 *Ibid.*, p. 789; *cf.* Senator Simmons, p. 794.

2 *Proceedings of the Chamber of Commerce of the State of New York for the Year Ending December 31, 1862*, p. 12.

3 *Congressional Globe*, 37th Cong., 2d Sess., pp. 900 and 882.

4 *Ibid.*, p. 882.

5 New York *Tribune*, January 13, 1862.

6 *Ibid.*, January 22, 1862.

7 *Ibid.*, February 1, 1862.

8 *Ibid.*, February 10, 1862.

9 *Ibid.*, February 18, 1862; *cf.* the issues of February 19 and 26.

tender clause was made by the New York *World*[1] and *Journal of Commerce*,[2] the Springfield (Mass.) *Republican*,[3] and the Boston *Daily Advertiser*.[4] On the other hand the New York *Herald* espoused the cause of the bill. With heavy taxation and the provision for exchanging notes for bonds, it thought the greatest depreciation could "not exceed 10 per cent. and that not before a lapse of two years"—especially not after the interest had been made payable in coin.[5] Somewhat similar was the attitude of the New York *Times*, which thought the legal-tender clause was necessary to protect the notes from bank competition and hostility;[6] of the Philadelphia *Press*, which regarded the issue of irredeemable paper as an unavoidable evil which it was "not manly to bemoan;"[7] of the New York *Commercial Advertiser*, which acquiesced "in the measure, as the best on the whole that could be done under the existing circumstances;"[8] of the *National Intelligencer* of Washington, which thought the measure would be of great assistance to the government provided the notes were fundable in bonds bearing interest in coin;[9] of the Boston *Post*, which advocated "a national issue of paper, *legal-tender*, as the best thing to be done under the circumstances;"[10] and of the Boston *Journal*, which declared that people who feared the bill would be a step toward an irredeemable currency were "too timid for the times."[11]

1 *E. g.*, see the issues of January 6 and 10.

2 Extract from the New York *Journal of Commerce*, reprinted in the Baltimore *Sun*, January 16, 1862.

3 See the issues of January 7, 8, 15, 18, 21, 29, and of February 5, 8, and 18, 1862.

4 See the issues of January 24, 28, and 31, and of February 5, 6, 11, 13, 17, and 22, 1862.

5 See the issues of January 11, 20, 21, 23, 30, 31, and of February 5, 10, 13, and 15, 1862.

6 See the issues of January 13, 16, 18, 22, 23, 27, 29, and of February 3, 5, 7, 10, 12, and 14, 1862.

7 See the issues of January 18, February 8, 14, and 21, 1862.

8 See the issues of February 7 and January 29, 1862.

9 See the issues of January 11, 25, and of February 1 and 10, 1862.

10 See the issues of January 14, 21, 28, and of February 1, 1862.

11 See the issues of January 8 and of February 3 and 7, 1862.

CHAPTER III

THE SECOND LEGAL-TENDER ACT

I. *Government Finances January to June, 1862:*
Deficit in the Revenues — Existing Authority to Borrow — Second Issue of Old Demand Notes — Temporary Loan — Certificates of Indebtedness — Receipts, January to March — Relief Afforded by Issues of Greenbacks — Small Amount of "Conversions" — Receipts April to June — Position of Treasury, June 30, 1862.

II. *The Second Legal-Tender Act:*
Chase's Request for Second Issue of Greenbacks — Chandler's Attempt to Forestall its Consideration—Debate in House and Senate — Provisions of the Act.

III. *The Postage-Currency Act:*
Embarrassment of Treasury from Disappearance of Small Change — Remedies Proposed by Chase — Passage of Postage Currency Act.

I. GOVERNMENT FINANCES JANUARY TO JUNE, 1862

"WITHIN sixty days," Justin Morrill had prophesied in discussing the first legal-tender act, "we must have at least twice the amount of notes which is proposed now."[1] His prophecy was fulfilled, but not until double the time set had elapsed.

During this interval between the first and second legal-tender acts, Secretary Chase perforce depended mainly upon loans. At the time of suspension "expenditures had already reached an average of nearly a million and a quarter of dollars each secular day; while the revenue from all sources hardly exceeded one-tenth of that sum."[2] In the

[1] *Congressional Globe*, 37th Cong., 2d Sess., p. 886. *Cf.* the similar predictions cited in note 1, p. 58, above.

[2] *Report of the Secretary of the Treasury*, December, 1862, p. 7. The advocates of the legal-tender bill in their anxiety to prove the necessity of the measure seem to have exaggerated the expenses of government. January 28 Spaulding set the amount at "more than $1,600,000" per day (*Congressional Globe*, 37th Cong., 2d Sess., p. 524), and by February 6 Stevens declared daily expenditures had reached "about $2,000,000" (*ibid.*, p. 687). But on June 7 Chase still put the sum at $1,000,000, with the admis-

quarter January to March the ordinary income of the government from customs, sales of public lands, and miscellaneous sources was hardly $15,000,000. Though in the next quarter the income from these sources increased $4,000,000 and was supplemented by the first receipts from the direct tax imposed the summer preceding, the total came to but $21,000,000.[1] This made total receipts for the six months of $36,000,000 from ordinary sources, while expenditures were probably between $325,000,000 and $350,000,000.[2] Of course the difference between these sums had to be borrowed.

When the banks and the treasury ceased paying in specie Chase found that his authority to borrow was confined practically to the loan acts passed at the summer session of Congress. These acts, it will be remembered, permitted the secretary to borrow $250,000,000 and to issue a variety of bonds and treasury notes as security.[3] Under this authority Mr. Chase had already arranged with the associated banks for three loans amounting to $150,000,000. $30,000,000 of the bank subscriptions, however, had not yet been paid into the treasury.[4] This balance formed his first immediate resource. His second was found in the fact that of the $50,000,000 of demand notes authorized, but $33,-500,000 had been issued.[5] This left a sum of $16,500,000 which he could pay out at once. Finally, after the funds

sion, however, that this amount would probably be exceeded in the near future (*H. R. Miscellaneous Document No. 81*, p. 2, 37th Cong., 2d Sess.). In fact, the daily expenses did not reach quite two millions a day even for the fiscal year of 1862–3. (*Cf. Report of the Secretary of the Treasury*, December, 1863, p. 29.)

1 *Report of the Secretary of the Treasury*, December, 1862, p. 37.

2 Expenditures — unlike receipts — are not given by quarters in the reports of the secretary of the treasury, except for the three months, July to September. The above figures are the result of a rough estimate made after considering the expenditures from July to September, 1861, the total for the fiscal year 1862, and the ratio of increase from 1862 to 1863.

3 See chap. i, p. 17, above.

4 *Ibid.*, p. 40, note.

5 *Report of the Secretary of the Treasury*, December, 1862, p. 9.

obtained from the $150,000,000 bank loan and the $50,000,000 of demand notes had been exhausted, there still remained $50,000,000 of the $250,000,000 which the secretary had been authorized to borrow. But this $50,000,000 was not for the moment available. For, though it could be borrowed on either 7.30 three-year notes at par, or on 6 per cent. bonds at 89.3+, the equivalent of par for 7 per cent. stocks, the sixes already issued were selling in the market at 89 and the seven-thirties at 98.[1]

Under these circumstances Mr. Chase continued to draw upon the banks from week to week until their last instalment upon the $150,000,000 loan was paid on February 4.[2] At the same time he issued demand notes freely, and also persuaded a few government creditors much in need of funds to accept 7.30 notes at par in satisfaction of their claims.[3] But these resources were not adequate for the needs of the treasury, and on February 7, the day after the legal-tender bill had passed the House of Representatives, Chase was obliged to request authority to issue another $10,000,000 of the demand notes to tide over the time until the Senate could act upon the pending measure.[4] The short bill which he sent with his letter was passed at once by the Senate without debate or even reference to committee, and on the following Monday it was acted upon by the House with similar dispatch.[5]

Ten millions, however, was a small sum compared with the needs of the treasury, and Chase found it necessary to resort to various new devices to obtain additional means.

[1] See the table of prices of government stocks in the *American Annual Cyclopædia*, 1862, p. 474.

[2] Chap. i, p. 40, note, above.

[3] Thaddeus Stevens said in the House on February 6 that such issues of seven-thirties had then reached about $10,000,000.—*Congressional Globe*, 37th Cong., 2d Sess., p. 687.

[4] See his letter to Fessenden, *ibid.*, p. 705.

[5] *Ibid.*, p. 726; 12 *Statutes at Large*, p. 338.

One plan that ultimately had marked success was suggested by Mr. John J. Cisco, the chief of the New York subtreasury.[1] February 8 he published a notice stating that he had been "authorized by the Secretary of the Treasury to receive on deposit United States notes as a temporary loan" at 5 per cent. interest, with the condition that sums deposited could be withdrawn at any time after ten days' notice.[2] About $2,000,000 were deposited in this fashion within a fortnight; but Secretary Chase seems to have entertained some doubts of his authority to make such an arrangement, and accordingly he requested the Senate finance committee to insert an amendment in the legal-tender bill then in their hands granting him power to accept such deposits to an amount not exceeding $25,000,000.[3] Senator Sherman and others demurred on the ground that if men could draw 5 per cent. interest on notes deposited but temporarily with the subtreasuries they would be slow to lock up their capital by funding notes in 6 per cent. bonds.[4] But after Fessenden and Chandler had explained that the secretary believed that the plan would induce banks to accept the notes more freely and that whatever sums were deposited would constitute a loan to the government at 5 per cent., the measure was finally passed by a vote of 21 to 18.[5] No objection was raised to the plan in the House, and with some minor changes the amendment was incorporated into the legal-tender act as sec. 4.[6]

1 SCHUCKERS, *Life of Chase*, p. 269.

2 See financial columns of the New York papers and the *Annual American Cyclopædia*, 1862, p. 454, for text of the notice. The object of this plan was at first rather to secure a readier acceptance of the old demand notes by the banks than to raise a loan at 5 per cent. *Cf.* Part II, chap. ii, sec. iii, below.

3 *Congressional Globe*, 37th Cong., 2d Sess., p. 772.

4 See the discussion of the amendment, *ibid.*, pp. 772, 773, 802, 803.

5 *Ibid.*, p. 803.

6 12 *Statutes at Large*, p. 346.

The opportunity afforded by this measure of obtaining 5 per cent. interest on current funds proved very attractive to the banks. March 7 a meeting of the New York Clearing House Association voted to employ such certificates of deposit in payment of balances at the clearing house, and their agents arranged with Mr. Cisco to issue for the purpose certificates payable to the order of any bank in the association.[1] As the New York banks wished to take out $20,000,000 of these certificates, Mr. Chase saw that the $25,000,000 limit imposed by the act of February 25 would not allow him sufficient margin for similar issues in other cities. Consequently he asked the finance committee of the Senate to add an amendment raising the limit to $50,000,000 to the bill that had just been sent up by the House providing for the purchase of coin for interest on the public debt. This request was acceded to, though not without further objections from Senator Sherman, and the new limit was provided for by sec. 3 of the act which was approved March 17.[2] By the end of the month the treasury had received over $20,000,000 on account of the "temporary loan," as it was called, and had redeemed less than $1,500,000.[3]

Another shift for obtaining means was the issue of "certificates of indebtedness." During the winter a floating debt had been gradually accumulating, variously estimated

[1] *Bankers' Magazine*, Vol. XVI, pp. 809–11.

[2] 12 *Statutes at Large*, p. 370; *Congressional Globe*, 37th Cong., 2d Sess., pp. 1156, 1162–4, 1235.

[3] BAYLEY, *National Loans of the United States*, p. 158. The table compiled by Professor D. C. Barrett from Senator Chandler's speech of June 17, 1862, and published in the *Quarterly Journal of Economics*, Vol. XVI, p. 327, does not agree with Bayley's figures. According to Bayley's table the amount of the temporary loan outstanding March 31 was $18,876,404.43; according to Barrett the amount on April 1 was $12,227,185. Chandler's figures, on which Barrett relies, are inconsistent — the totals do not agree with the several items. Perhaps the reason is that he includes in the totals the deposits received under Cisco's notice of February 8, before congressional authorization had been given to the temporary loan. Moreover, if his figures are for the end of the day they would include the notes deposited April 1, but these deposits could not have been a large sum, for the net increase that week was, according to Barrett, only $746,691.

at from $80,000,000 to $180,000,000.[1] Mr. Chase did not have sufficient ready money to pay even those creditors whose claims had been audited. As a measure of relief he requested authority to issue to creditors who might desire to receive them, certificates of indebtedness bearing 6 per cent. interest and payable in one year or earlier at the option of the government.[2] This request was granted by the prompt passage of the act of March 1.[3] March 17 authority was granted to issue such certificates in payment of disbursing officers' checks as well as in payment of audited accounts.[4] Army contractors and similar creditors found great relief in these provisions, for the delay in obtaining payment for supplies had interfered with their operations seriously, the more so because banks showed a disinclination to lend on their claims even after the claims had been approved by the treasury. Under the new system contractors could at any time obtain 6 per cent. obligations of government which could be sold in the market at a slight discount, or used as first-class collateral in securing loans from a bank.[5]

By these various shifts Mr. Chase obtained means sufficient to tide the treasury over the trying quarter between suspension of specie payments and the time when the resources provided by the legal-tender act became available. The following brief recapitulation may give a clearer idea of the situation. Against expenses of perhaps $112,500,000 to $137,500,000 the ordinary receipts were:

[1] January 16 the financial column of the New York *Herald* gave $80,000,000 as the current estimate. January 28, Spaulding put the floating debt at $100,000,000 (*Congressional Globe*, 37th Cong., 2d Sess., p. 523); February 6 Stevens declared it to be $180,000,000 (*ibid.*, p. 687).

[2] *Congressional Globe*, 37th Cong., 2d Sess., pp. 945, 954, 955.

[3] 12 *Statutes at Large*, p. 352.

[4] *Ibid.*, p. 370.

[5] *Cf. Annual American Cyclopædia*, 1862, p. 456.

From customs	$14,618,558.44
From sales of public lands	27,019.74
From miscellaneous sources (estimated)	232,946.91
	$14,878,525.09

Meanwhile the issues of government securities were:

Oregon war debt	$ 297,000.00
6 per cent. twenty-year bonds	20,374,753.43
7.30 three-year notes	11,170,598.24
Old demand notes	25,900,000.00
Temporary loan (less withdrawals)	18,876,404.43
Certificates of indebtedness	5,629.000.00
	[1] $81,247,756.10

The operations of the next three months, April to June, require less notice because no new measures were adopted. There was an increase of about one-half in ordinary receipts, but it was still necessary to borrow about nine-tenths of the funds required. In borrowing Secretary Chase made use of all the resources employed the quarter before except the issue of 6 per cent. twenty-year bonds. On the other hand he was able to employ also the means provided by the legal-tender act. He did this chiefly by paying out the new legal-tender notes which differed from the "old demand notes" in not being receivable for duties. Of these new notes — which were almost immediately christened the "greenbacks" — $99,500,000 were issued by the end of June.

The other grand resource provided by the legal-tender act proved for the time being a vain reliance. An issue of

[1] For the revenues of the quarter see *Report of the Secretary of the Treasury*, December, 1862, p. 37. The receipts from miscellaneous sources are taken as a quarter of the amount for the whole year. The issues of securities are compiled from BAYLEY, *National Loans of the United States*. The Oregon war issues were authorized by the act of March 2, 1861 (12 *Statutes at Large*, p. 198), for the payment of expenses incurred by Oregon and Washington during the Indian troubles of 1855 and 1856. All of the 6 per cent. bonds and about $2,500,000 of the seven-thirties were issued to the associated banks for the loans negotiated before suspension.

$500,000,000 of 6 per cent. bonds had been authorized — called "five-twenties" from the fact that they were redeemable after five and payable after twenty years — and it had been provided that the legal-tender notes might be exchanged for these bonds at the desire of the holders.[1] Much had been hoped from this "funding provision" by the supporters of the bill. Thaddeus Stevens expressed their theory most concisely:

My distinguished colleague from Vermont [referring to Justin Morrill] fears that enormous issues [of legal-tender notes] would follow to supply the expenses of the war. I do not think any more would be needed than the $150,000,000. The notes bear no interest. No one would seek them for investment. . . . . This money would soon lodge in large quantities with the capitalists and banks. . . . . Where could they invest it? In United States loans at 6 per cent., redeemable in gold in twenty years, the best and most valuable permanent investment that could be desired. The Government would thus again possess such notes in exchange for bonds, and again re-issue them. I have no doubt that the $500,000,000 of bonds authorized would be absorbed in less time than would be needed by Government; and thus $150,000,000 would do the work of $500,000,000 of bonds. When further loans are wanted you need only authorize the sale of more bonds; the same $150,000,000 of notes will be ready to take them.[2]

Experience proved that such expectations as Mr. Stevens indulged were far too sanguine. While the government was in the midst of an enormously expensive war of which the end could not be foreseen, its credit was not high enough to make men desire its 6 per cent. coin interest bonds on the conditions permitted by the first legal-tender act. Consequently conversions of greenbacks into bonds were slow — less than $14,000,000 of the five-twenties were disposed of in the first three months after they were ready for issue.[3]

[1] Sec. 2, 12 *Statutes at Large*, p. 345.

[2] *Congressional Globe*, 37th Cong., 2d Sess., p. 688. *Cf.* the remarks of Spaulding, *ibid.*, p. 526; Sherman, p. 791; and Pomeroy, p. 884.

[3] BAYLEY, *National Loans of the United States*, p. 156.

Instead of its being necessary, as Mr. Stevens forecast in February, to issue more bonds to take up the legal-tender notes constantly offered for conversion, it became necessary to issue more greenbacks to compensate for the small demand for bonds.[1]

The treasury operations for the quarter April to June may best be presented in a summary like the one given above for January to March.

RECEIPTS FROM ORDINARY SOURCES	
From customs	$18,930,170.16
From sales of public lands	49,558.54
From miscellaneous sources (estimated)	232,946.91
From direct tax	1,795,331.73
	$21,008,007.34
ISSUES OF GOVERNMENT SECURITIES	
Oregon war debt	$ 198,850.00
6 per cent. twenty-year bonds	
7.30 three-year notes	13,997,936.64
Old demand notes	30,000.00
Temporary loan (less withdrawals)	39,049,712.14
Certificates of indebtedness	44,252,979.73
	$97,529,478.51
Legal-tender notes (greenbacks)	98,620,000.00
Five-twenties of 1862	13,845,500.00
	[2] $209,994,978.51

The free issue of greenbacks put the treasury by the end of the quarter in a very much better position than it had been in at the beginning. The floating debt that had accumulated during the preceding three months was all cleared away and current expenses were paid promptly. On July 1, said Mr. Chase in his December report:

[1] For the subsequent history of the "conversion" scheme, see chap. iv, pp. 104, 107, 108, 115, 116, below.

[2] For authorities see above, p. 88, note.

Not a single requisition from any department upon the treasury remained unanswered. Every audited and settled claim on the government, and every quartermaster's check for supplies furnished, which had reached the treasury, had been met. And there remained in the treasury a balance of $13,043,546.81.[1]

II. THE SECOND LEGAL-TENDER ACT

While it is true, as has just been shown, that the treasury worked into comfortable condition during the quarter April to June, 1862, and possessed abundant funds to meet all current demands, Mr. Chase foresaw that this pleasant situation could not continue long without further grants from Congress. The credit was due in large measure to the rapid issues of greenbacks, and when the whole amount of these notes authorized by the act of February, 1865, had been put into circulation stringency would recur. This matter he called to the attention of Congress by a letter written June 7 to Thaddeus Stevens, chairman of the Committee of Ways and Means.[2]

According to the terms of the first legal-tender act, he reminded Congress, $150,000,000 of United States notes might be issued, but $60,000,000 of this sum must be used to replace the old demand notes authorized by the acts of July 17, 1861, and February 12, 1862. The new issues, therefore, were confined to $90,000,000. This limit, he said, had already been reached, and accordingly further issues could be made only as equal sums of the old notes were retired. Moreover, no more temporary deposits could be received, because the amount on hand had reached $50,000,000—the full sum authorized by Congress—despite a reduction in the rate of interest from 5 to 4 per cent. Thus the only available resources were receipts from customs, and

[1] *Report of the Secretary of the Treasury*, December, 1862, p. 10.

[2] *H. R. Miscellaneous Document No. 81*, 37th Cong., 2d Sess. The date of the letter as given by this document is April 7, but this is an error of the press. See the remarks of Mr. Stevens, *Congressional Globe*, 37th Cong., 2d Sess., p. 2768.

sales of five-twenty bonds for greenbacks, or "conversions." But these resources were far from adequate to meet the expenditures.

> No safe reliance [said Mr. Chase] can be placed on conversions so far as experience has afforded any grounds of estimate, for more than $150,000 daily; and the daily average revenue from customs, during the past month, has been about $230,000.
>
> The aggregate daily receipts from both these sources, therefore, cannot be estimated at more than $380,000, and may very possibly fall short of that sum; while the average daily expenditure cannot be estimated at less than $1,000,000, and will, probably, unless very considerable retrenchments are made, exceed that sum.

To meet the deficit the secretary proposed two measures: first, the "removal of the restriction upon temporary deposits;" second, the issue of another $150,000,000 of legal-tender notes. The first measure would enable him to take full advantage of the disposition of business men to lend their means to the government temporarily at a low rate of interest. Mr. Chase thought that not less than $30,000,000 would be added at 4 per cent. to the $50,000,000 of deposits already received. To provide for the prompt redemption of such of these deposits as were withdrawn, he proposed that a reserve of 33⅓ per cent. be provided out of the new issues of greenbacks.

Another suggestion, indicative of the state into which the circulating medium of the country had already fallen, was that $25,000,000 of the new United States notes should be of denominations less than five dollars.

> Payments to public creditors, and especially to soldiers [Mr. Chase said in explanation], now require large amounts of coin to satisfy fractional demands less than five dollars. Great inconveniences in payment of the troops are thus occasioned. With every effort on the part of the treasury to provide the necessary amount of coin, it is found impracticable always to satisfy the demand. When the amount required is furnished, the temptation to disbursing officers to exchange it for any small bank notes that the soldiers

or the public creditors will take, is too great to be always resisted. And even when the coin reaches the creditors it is seldom held, but passes, in general, immediately into the hands of sutlers and others, and disappears at once from circulation.[1]

With this letter Mr. Chase sent a bill embodying his recommendations. "The condition of the treasury," he said, in conclusion, " renders prompt action highly desirable."

This communication was laid before the House June 11. The request for a second issue of legal-tender notes immediately alarmed the opponents of paper money. With the hope of preventing its consideration, Senator Chandler, of Michigan, introduced a resolution: "That the amount of legal tender treasury notes already authorized by law, shall never be increased."[2] Speaking in support of this resolution he said that the effect which the passage of a second legal-tender bill would have was shown by the fact that the mere publication of Secretary Chase's request, " without any action of Congress on the subject, has created such a panic, and has so convinced the money center of the world that we are to be flooded with this paper, that gold has risen in price from $2\frac{3}{4}$ to 7 per cent. premium." If full use were made of other resources, he continued, the disastrous consequences of fresh paper money emissions could be avoided. By paying 5 per cent. interest an indefinitely large sum could be obtained on temporary deposit and the lagging conversions of greenbacks into bonds could be stimulated by an appeal to the patriotism of the people.[3]

Senator Fessenden, chairman of the finance committee, replied in a moderate vein. Reliance upon temporary deposits, he pointed out, would be very hazardous, because if any severe shocks occurred to the credit of the government, large sums might be withdrawn within a few days,

[1] *Cf.* Part II, chap. ii, sec. iv, below.

[2] *Congressional Globe*, 37th Cong., 2d Sess., p. 2746.

[3] *Ibid.*, pp. 2774, 2775.

and Mr. Chase be left without funds. He regretted that the secretary had found it necessary to request the issue of more notes, and he was not convinced that such a course would be wise. But until the secretary's reasons were fully known he thought it would be wrong to resolve not to grant his request. Therefore, he moved that the resolution be referred to his committee for consideration. This was done, and nothing more was heard of the matter by the Senate.[1]

Meanwhile Mr. Chase's bill was introduced into the House.[2] As before, Mr. Spaulding fathered the measure. The tone of the debate was quite different from that upon the first legal-tender act. The advocates of paper money spoke in a less apologetic tone, boldly assuming the offensive. The first experiment, they held, had demonstrated the wisdom of their policy. Mr. Spaulding declared that the act of February 25 had "worked well," and had "exceeded the most sanguine expectations of its warmest advocates."[3] Some members who had voted against the first bill were won over by such claims to vote for the second. Senator Simmons, for instance, said the first issue "has given great practical relief to the country, and inasmuch as it has done so, I . . . . give my consent to authorize a further issue."[4] Other members agreed to the bill because of the hopelessness of opposition. Owen Lovejoy, who had spoken vigorously against the bill in February, explained that he still thought the policy pernicious but that he would not "persist in any factious opposition to what is a foregone conclusion."[5] On the other hand, there were members who had voted for the first bill as a measure of

[1] *Congressional Globe*, 37th Cong., 2d Sess., pp. 2774, 2775.

[2] *Ibid.*, p. 2665. The bill as reported from the Committee of Ways and Means differed from the bill submitted by Chase in not authorizing the issue of notes less than five dollars. See the text, p. 2766.

[3] *Ibid.*, p. 2766. *Cf.* on the other side Mr. Sheffield, p. 2888.

[4] *Ibid.*, p. 3077.

[5] *Ibid.*, p. 2885.

temporary necessity, but who opposed the second on the ground that it inaugurated a regular policy of depending on inconvertible paper.[1] Thus the character both of the support and of the opposition shifted somewhat.

In the debate one point especially received relatively more attention than in February. Mr. Hooper based his argument for the bill on the country's need of a currency of uniform value. It was a question, said he, between bank notes and government notes, and he preferred the latter.[2] "If anybody," said Mr. Lovejoy, "is to have the advantage of a depreciated currency—the advantage, in other words, of not paying interest on what they [*sic*] owe—I say let the government have that advantage; and let the bankers share with the rest of us."[3] In order to secure this advantage to the government, Senator Sherman proposed an amendment to the bill imposing a tax upon bank notes.[4]

But it was again the argument of necessity that did duty as the chief reason for the bill. In opening the debate Mr. Spaulding reiterated it explicitly. "The ground upon which the secretary of the treasury, and upon which the Committee of Ways and Means, rest this issue of notes," he said, "is the necessity of the case."[5] By the opposition the alleged necessity was once again emphatically denied. Mr. Pomeroy made an elaborate attempt to show that Secretary Chase had underestimated the probable receipts of the government, and that the daily deficit instead of being $620,000 was only $166,166.[6] Mr. Pike, who had voted for the

[1] *Cf.* the remarks of Mr. Pike, *ibid.*, p. 2798, and Senator Davis, p. 3078.

[2] *Ibid.*, p. 2882.

[3] *Ibid.*, p. 2885.

[4] *Ibid.*, pp. 3071, 3072. This proposition was opposed by Senators Collamer, p. 3073; Simmons, pp. 3076, 3077; and Davis, p. 3078.

[5] *Ibid.*, p. 2768. *Cf.* remarks of Messrs. Baily, *ibid.*, Appendix, p. 298; and Edwards, *ibid.*, p. 2888.

[6] Mr. Pomeroy estimated "conversions" at $275,000 instead of $150,000 daily, and further added $333,000 per day as the expected receipts from the internal revenue act then just enacted.—*Ibid.*, p. 2797. As a matter of fact this act yielded about $103,000 instead of $333,000 daily in the fiscal year, 1863.—*Report of the Secretary of the Treasury*, 1863, p. 28.

first bill on the ground of necessity, refused to vote for the pending measure, which could be advocated only upon "the mere ground of convenience."[1] And Mr. Morrill declared that after the recent victories of the federal armies and the passage of the tax bill there was not only no necessity, but no excuse, for the issue of more paper.[2]

Nor were these gentlemen who denied the necessity at a loss for an alternative. "The true policy," said Mr. Morrill, "is to put upon the market the small amount which will be required . . . . in the bonds of the Government, at whatever they would bring."[3] Mr. Sheffield concluded his speech by saying: "I am persuaded that it would be far better for the people of the country to sell bonds at a large discount than to further disturb the relation between price and value by a further issue of these notes."[4] Mr. Horton put these suggestions into formal shape by presenting, as a substitute for the bill, a measure authorizing the secretary of the treasury to borrow $100,000,000 on 6 per cent., twenty-five year bonds.[5]

As in the first debate, the supporters of the bill implicitly gave away the argument of necessity in the answer made to the proposal of borrowing. Instead of showing that it was impracticable to sell bonds, they responded that, as a method of securing revenue, it was better to issue inconvertible paper money than to borrow below par. "When money can be obtained at par on six per cent. bonds," said Mr. Spaulding, "I would prefer to have that done to the issuing a very large amount of legal tender notes."[6] Mr. Edwards followed suit, "I would gladly give my consent," said he, "to . . . . the sale of bonds . . . . if I were assured those bonds could be sold at par."[7]

1 *Congressional Globe*, 37th Cong., 2d Sess., p. 2798.

2 *Ibid.*, p. 2885. See also Mr. Baker, *ibid.*, p. 2881.

3 *Ibid.*, p. 2885. 4 *Ibid.*, p. 2888. 5 *Ibid.*, p. 2794. 6 *Ibid.*, p. 2767.

7 *Ibid.*, p. 2888. *Cf.* on the other side Mr. Pomeroy, *ibid.*, p. 2796.

The legal-tender debate in June and July was by no means so exhaustive as had been the debate in January and February. Apparently members felt it would be a fruitless waste of time to discuss again the questions debated at such length five months before. An attempt was made, however, to learn whether this was the last issue that would be asked for. Mr. Stevens, the chairman of the Committee of Ways and Means, to whom the question was put, replied frankly that he did not know where the issues would stop.[1] To offset this damaging admission the supporters of the bill praised the paper currency,[2] and asserted that there was no reason why a new issue should increase depreciation.[3]

The measure came to a vote in the House June 24. It passed by 76 yeas to 47 nays. Of those who voted in the affirmative five had opposed the legal-tender clause in the first act. On the contrary, of the nays, seven had supported the legal-tender clause in February. The large majority of members, however, voted upon the second act as they had upon the first. The yeas included four Democrats and the nays fifteen Republicans, so that the division was not a party vote.[4]

In the Senate the vote was 22 to 13. Four senators voted for the bill who had opposed the legal-tender clause of the first act, and three senators — John Sherman among them — who had supported the first act opposed the second. Twenty-one Republicans voted in the affirmative and nine in the negative. Of the four democratic votes one was in favor of the bill. As in the case of the first act the vote was devoid of sectional and of party character.[5]

[1] *Ibid.*, p. 2886.

[2] Mr. Spaulding, *e. g.*, said the act of February 25, 1862, "had given the country a sound national currency, in which the people have had entire confidence."—*Ibid.*, p. 2767.

[3] Mr. Hooper said he had "no apprehension of any depreciation of the currency being produced by the passage of the bill."—*Ibid.*, p. 2883.

[4] *Ibid.*, p. 2903.

[5] *Ibid.*, p. 3079.

President Lincoln approved the second legal-tender act July 11, 1862. The law authorized the issue of $150,000,000 United States notes. In addition the limit upon the amount of temporary deposits that might be received was raised from $50,000,000 to $100,000,000. In order to provide for the prompt payment of these deposits the secretary was directed to retain as a reserve fund not less than $50,000,000 of the newly authorized notes.[1]

III. THE POSTAGE CURRENCY ACT

It has been seen that Secretary Chase's letter requesting authority for a second issue of greenbacks referred to the difficulty experienced by disbursing officers in making change for sums of less than $5. To relieve this difficulty it was provided in the act of July 11 that $35,000,000 of the new issues should be of lower denominations than $5, but it was also provided that no note should "be issued for the fractional part of a dollar."[2]

Hardly had this act been approved by President Lincoln when Mr. Chase found it necessary to request authority to use paper money, not only in payments of one and two dollars, but also in payments of 50, 25, and even 10 cents. July 14 he wrote a letter to Thaddeus Stevens, saying:

> The depreciation of the currency, resulting, in great measure, from the unrestricted issues of non-specie-paying banks and unauthorized associations and persons, causes the rapid disappearance from circulation of small coins. To supply the want of these coins, tokens and checks for sums less than one dollar are being issued by hotels, business houses, and dealers generally; and the most serious inconveniences and evils are apprehended unless these issues can be checked and the small coins of the Government kept in circulation, or a substitute provided.[3]

[1] 12 *Statutes at Large*, p. 532. [2] *Ibid.*, *loc. cit.*

[3] *Congressional Globe*, 37th Cong., 2d Sess., p. 3405. On the disappearance of subsidiary silver from circulation see Part II, chap. ii, sec. iv, below.

Chase proposed two methods of meeting this situation. One was to diminish the weight of the subsidiary coins to such a point that as bullion they would be worth less than their face value as money; the other was to authorize the use of postage and other stamps in payments of fractional parts of a dollar. For the convenience of the Committee of Ways and Means the secretary submitted two bills embodying these suggestions. The second expedient seemed preferable to the committee, and accordingly the bill providing for the use of stamps as currency was introduced by Mr. Hooper July 17 and passed at once by a vote of 62 to 40, with no debate aside from an objection raised on constitutional grounds against the clause forbidding the issue of small notes by state banks.[1] The Senate passed the bill the same day without debate or division,[2] and President Lincoln signed it before night.

The act directed the secretary of the treasury "to furnish to the Assistant Treasurers, and such designated depositaries of the United States as may be by him selected, in such sums as he may deem expedient, the postage and other stamps of the United States, to be exchanged by them, on application, for United States notes."

Such stamps were not made a legal tender between individuals, but their currency was assured by providing that they should be receivable in payment of all dues to the United States less than $5, and that they should be redeemed in greenbacks on demand by the treasury officials. The second section forbade any "private corporation, banking association, firm, or individual" to put in circulation notes or tokens of any character for sums less than a dollar.[3]

[1] *Congressional Globe*, 37th Cong., 2d Sess., pp. 3405, 3406.

[2] *Ibid.*, p. 3402.

[3] 12 *Statutes at Large*, p. 592. On the authorization of fractional currency to take the place of postage currency, see Part I, chap. iv, p. 118, below. On the circulation of both these forms of small change see Part II, chap. ii, sec. iv.

CHAPTER IV

THE THIRD LEGAL-TENDER ACT

I. *The Finances from July to December, 1862:*
Receipts and Expenses July to September — Increase of Deficit in October and November — Proposals of the Finance Report; No Further Issues of Greenbacks, But Reliance Upon Loans.

II. *The Joint Resolution of January 17, 1863:*
Arrears in Pay of Army — Congressional Inquiries and Chase's Rejoinders — Resolution for Additional Issues of Greenbacks.

III. *The Third Legal-Tender Act:*
Provisions of Ways and Means Bill — Character of Debate — Repeal of Funding Provisions — Substitutes Proposed — Senate Amendments — Provisions of the Act.

I. THE FINANCES FROM JUNE TO DECEMBER, 1862

On July 1, 1862, the beginning of the new fiscal year, the treasury was in easy circumstances, as has been shown. All audited claims had been met, and there was a balance of $13,000,000 on hand.[1] But in the next quarter the treasury began to run behind again. The futile ending of McClellan's campaign in the Peninsula, from which so much had been hoped, showed that the end of the war was not at hand, and on July 1 President Lincoln issued a call for 300,000 additional troops.[2] Enlarging the army of course promised an increase of demands on the treasury. During the quarter July to September, however, the warrants drawn against the treasurer for other purposes than payment of the public debt were slightly less than the quarterly average for the fiscal year 1862 had been — viz., $111,000,000 as compared with $119,000,000.[3] But at the

[1] Pp. 90, 91, above.

[2] *Complete Works*, ed. Nicolay and Hay, Vol. II, pp. 194, 195.

[3] See the statements of expenditures in the *Report of the Secretary of the Treasury*, December, 1862, pp. 41, 43.

same time some $45,500,000 more had to be used in redeeming old demand notes, greenbacks, certificates of indebtedness and certificates of deposits.[1]

To help in meeting these total expenditures of $156,-500,000 there was a slight increase in the receipts from taxation and miscellaneous sources. This revenue rose from about $21,000,000 in the preceding quarter, to $24,000,-000.[2] For the rest Mr. Chase had to borrow. As conversions of greenbacks into five-twenty bonds amounted to but $2,500,000, he relied mainly on issues of greenbacks and various short-time obligations.[3] Altogether he succeeded in obtaining $114,500,000 from loans, but the necessity of paying $45,500,000 of the principal of the debt reduced the net increase of means from loans to $69,000,000. This sum, with the receipts from ordinary sources, gave the secretary $93,000,000 to meet warrants of $111,000,000.[4] The difference between these sums swallowed up the balance of $13,000,000 on hand July 1 and left an accumulation of unpaid warrants amounting to $5,000,000.

Unpromising as the situation of the treasury was at the end of September, it became worse during October and November. The increase of the army began to be felt by the treasury. The expenditures during these two months other than those for payment of debt were almost as great as the total for the three months preceding—viz., $109,000,000 as compared with $111,000,000.[5] Mr. Chase was not able to raise money fast enough to meet these expenses, and though he borrowed $85,500,000,[6] the accumulation of unpaid requisitions at the end of November reached $48,000,000.[7]

[1] *Ibid.*, p. 43.

[2] *Ibid.*, pp. 37, 43.

[3] $3,500,000 of seven-thirty notes, $72,500,000 of greenbacks, $12,000,000 of certificates of indebtedness and $23,000,000 of certificates of deposit were issued.—*Ibid.*, p. 43.

[4] Exclusive of payments of the principal of the debt.

[5] *Ibid.*, p. 10. [6] *Ibid.*, p. 3. [7] *Ibid.*, p. 10.

When the secretary prepared his annual report to Congress early in December, he estimated that the expenditures for the remainder of the fiscal year would be $485,000,000. The addition of the $48,000,000 of accumulated floating debt made the total to be provided $533,000,000. Against this sum Mr. Chase expected to receive $125,000,000 from taxes of all kinds and miscellaneous sources. This left $408,000,000 to be raised from loans. Under existing laws the secretary expected to secure $27,000,000 from issues of greenbacks, $36,000,000 from postage currency, $13,000,000 from certificates of indebtedness, and $20,000,000 from temporary deposits. These sums, with an estimated sale of five-twenty bonds amounting to $35,000,000, made a total of $131,000,000; which, subtracted from the $408,000,000 to be borrowed, left loans of $277,000,000 to be provided for by new legislation.[1]

In discussing how this sum should be procured Secretary Chase took emphatic ground against any considerable increase in the emission of greenbacks:

[1] *Report of the Secretary of the Treasury*, December, 1862, pp. 3-5, 11, 12. The figures in the report give estimated receipts and expenditures for the whole fiscal year, while the figures above are confined to the months December, 1862, to July, 1863. In obtaining the latter figures from the former it is necessary to cast out the expenses actually paid from July to November. This can be done with certainty for the months July to September because a full statement is given of the receipts and expenditures of that quarter. But for October and November the statements show only receipts from loans ($86,000,000), and expenditures for objects other than payment of the principal of the debt ($109,000,000). It is, therefore, necessary to estimate the receipts from ordinary sources and the amount paid on the principal of the debt. Such an estimate is not difficult to make, because the figures actually given show that the latter sum exceeded the former by $20,000,000. The difference between the stated expenditures and receipts is $23,000,000. But it is also stated that the accumulation of unpaid requisitions rose from $5,000,000 at the end of September to $48,000,000 at the end of November. Since the treasury thus fell behind $43,000,000 on all expenditures and only $23,000,000 on stated expenditures it must have been because expenditures not stated exceeded receipts not stated by $20,000,000. With this guide and that afforded by the figures for the quarter July to September, I have estimated the receipts from customs, etc., during October and November at $18,000,000 and the payments on the principal of the debt at $38,000,000. The figures for the amounts to be borrowed given in the text, however, agree with those in the secretary's report and are not affected by any inaccuracy of these guesses, for, if the estimated receipts from taxation are too small they are compensated for by correspondingly deficient estimates of expenditure on the principal of the debt.

> The easiest mode [of obtaining the $277,000,000] doubtless would be an issue of the required amount in United States notes; but such an issue, especially in the absence of proper restrictions on corporate circulation, would, in the judgment of the Secretary, be as injurious as it would be easy. The addition of so vast a volume to the existing circulation would convert a currency, of which the benefits have thus far greatly outweighed the inconveniences, into a positive calamity. Its consequences would be inflation of prices, increase of expenditures, augmentation of debt, and ultimately, disastrous defeat of the very purposes sought to be attained by it.[1]

While the secretary thus opposed further issues of greenbacks, he had no suggestions to make of increased taxation. Instead, he proposed to secure the additional $277,000,000 solely by borrowing. In order to facilitate the negotiation of loans as well as to provide a better currency, he urged again upon Congress the plan proposed in his report of the year before for reorganizing the banking system. Banks that desired to issue circulating notes were to be required to purchase United States bonds to be held as security. This plan, he thought, would make a market for not less than $250,000,000 of bonds "within a very few years."[2] Moreover, the steady sale of bonds to banks would strengthen the credit of the government and enable it to borrow from others on better terms.[3]

If reliance were to be placed upon loans, the question as to what form of security had best be offered became important. Mr. Chase opposed any increase beyond five years in the length of time that bonds should run before they became redeemable, and any increase in the rate of interest beyond 6 per cent. As an alternative he preferred the issue of 7.30 three-year notes, "convertible into five-twenty sixes at or before maturity, and of smaller notes bearing an interest of 3.65 per cent."[4]

[1] *Ibid.*, p. 12.
[2] *Ibid.*, p. 18.
[3] *Ibid.*, pp. 18, 24, 26.
[4] *Ibid.*, p. 25.

> No prudent legislator [said he] at a time when the gold in the world is increasing by a hundred millions a year, and interest must necessarily and soon decline, will consent to impose on the labor and business of the people a fixed interest of 6 per cent. on a great debt, for twenty years, unless the necessity is far more urgent than is now believed to exist.[1]

Accordingly, he recommended no change in the law providing for the issue of bonds beyond the necessary increase in amount and the repeal of two clauses which in his view limited the sale of the five-twenties already authorized.[2] These clauses, however, or rather Mr. Chase's interpretation of them, require some attention.

The first legal-tender act of February 25, 1862, as will be remembered, had authorized the issue of $500,000,000 6 per cent. five-twenty bonds, which the secretary was permitted to sell "at the market value thereof." The law also provided that holders of greenbacks might exchange them in sums of $50 or multiples of $50 for these bonds at par.[3] Under this authorization the secretary had been able to dispose of but relatively few of the five-twenty bonds. Up to the first of December "conversions" amounted to less than $24,000,000.[4] Mr. Chase now declared that these small sales were due to the clauses restricting sales to the "market value" of the bonds and permitting "conversions" of greenbacks into five-twenties at par.

> Considerable amounts [he explained] are seldom taken, except with a view to resales at a profit, and resales at any profit are impossible under the law. Negotiations below market value are not allowed, and if not allowed the taker of the bonds can expect no advance, unless a market value considerably below par shall become established. The act makes advance above par impossible, by authorizing conversion of United States notes into bonds at that rate.[5]

[1] *Report of the Secretary of the Treasury*, December, 1862, p. 25.

[2] *Ibid.*, p. 26.

[3] 12 *Statutes at Large*, pp. 345, 346.

[4] *Report of the Secretary of the Treasury*, December, 1862, p. 12.

[5] *Ibid.*, p. 52.

What this peculiar explanation meant Congress did not understand, and, as will soon appear, the secretary was asked to interpret it.

II. THE JOINT RESOLUTION OF JANUARY 17, 1863

This report was laid before the House of Representatives December 5 and referred to the Committee of Ways and Means, which at once set about drafting finance bills along the general lines indicated by the secretary.[1] But this was a task that necessarily required some time. It was not until the 8th of January that Mr. Stevens was able to report the loan bill and the bill for reorganizing the banks of issue.[2]

Meanwhile the treasury continued to run behind as it had done in October and November, and the accumulation of requisitions which could not be paid for lack of funds became larger. This state of affairs attracted much attention in Congress because the pay of the army fell into arrears. Members began to receive letters from constituents who were serving in the field, complaining that their families at home were suffering from lack of the money which the government owed but did not pay them.[3] Such complaints found a ready response. December 11 the House adopted a resolution asking the secretary of war to report "what regiments remain unpaid and how long have the soldiers of such regiments remained without pay."[4] As Mr. Stanton did not reply promptly,[5] the House adopted another resolution December 15, directed to the secretary of the treasury:

[1] *Congressional Globe*, 37th Cong., 3d Sess., p. 15.

[2] *Ibid.*, pp. 235–7. It was the Senate banking bill introduced by Sherman January 26, "a little different from the bill introduced in the House of Representatives" (p. 505), that was finally passed. *Cf.* SPAULDING, *op. cit.*, p. 186.

[3] See, *e. g.*, the remarks of Mr. Gurley, *Congressional Globe*, 37th Cong., 3d Sess., p. 344.

[4] *Ibid.*, pp. 75, 76. [5] No answer had been received up to January 12.—*Ibid.*, p. 283.

Whereas grievous delays happen in the payment of money due soldiers: Therefore, in order to ascertain if any and what legislation may be necessary to remedy such delays,

Resolved, That the Secretary of the Treasury be requested to furnish to this House the reasons why requisitions of paymasters in the Army are not promptly filled.[1]

Mr. Chase answered that the unpaid army requisitions then in the treasury amounted to $28,700,000. Payments of requisitions designated by the war and navy departments as most urgent were being made at the rate of about $1,000,000 daily from the proceeds of customs, internal revenue taxes, conversions, temporary deposit loans, and new issues of greenbacks. These resources, he concluded were insufficient, but he could not obtain more funds until Congress should adopt the measures recommended in his report.[2]

The House replied to this communication the day before adjourning for the holidays by passing a joint resolution declaring that in the opinion of Congress "immediate steps ought to be taken by the Treasury Department to pay the sums due the soldiers . . . . and that to this end a preference be given to this class of Government creditors over every other."[3] After the recess Henry Wilson, of the Committee on Military Affairs, reported this resolution to the Senate with an amendment which authorized the issue of an additional $50,000,000 of greenbacks to enable the secretary to carry out its directions. Senator Fessenden, however, pointed out that before such a measure was adopted Mr. Chase ought to be consulted, and for this purpose he requested and the Senate consented that the matter be referred to the Committee on Finance.[4]

1 *Congressional Globe*, 37th Cong., 3d Sess., p. 93.

2 *H. R. Executive Document No 16*, 37th Cong., 3d Sess.,Dated December 18, 1862.

3 Adopted December 22, 1862.—*Congressional Globe*, 37th Cong., 3d Sess., p. 167. For the text see p. 199.

4 *Ibid.*, pp. 199, 200.

When the resolution was sent to Chase he declared that the means provided by it would be insufficient. The existing resources of $1,000,000 a day did not cover current expenditures, and the addition of $50,000,000 of greenbacks would not suffice for the arrears in the pay of the army and navy, which probably approached $60,000,000. Therefore, as a substitute for the joint resolution, he sent in a bill providing for the sale at the best rates obtainable of $100,000,000 of 6 per cent. ten-year bonds, the issue of $50,000,000 of United States notes, and of a like sum of two-year 4 per cent. treasury notes.[1] On recommendation of the Committee on Finance the Senate postponed indefinitely the resolution adopted by the House and passed in its place the bill prepared by Chase.[2]

While the joint resolution was pending in the Senate, the House followed up its inquiry into the non-payment of the soldiers by requiring Secretary Chase to explain why he had not availed himself of the authority conferred upon him by the act of February 25, 1862, to sell $500,000,000 of 6 per cent. five-twenty bonds.[3] In replying, Chase laid the blame for the failure to use this authority, as he had done in his annual report, upon the clause specifying that the bonds should be sold at "the market value thereof." "The market value," he said, "can only be ascertained by the daily quotations of sales in New York." But he could not sell large amounts of securities at these market quotations, for heavy purchasers as a rule bought to sell again, and resales at a profit were impossible unless bonds could be bought from the government at prices less than those ruling in the market.[4]

The question whether Chase or Congress was respon-

[1] The text of his letter is published *ibid.*, p. 270.

[2] *Ibid.*, p. 270; January 12.

[3] Resolution adopted January 8.—*Ibid.*, p. 237.

[4] *H. R. Executive Document No. 29*, 37th Cong., 3d Sess.

sible for the emptiness of the treasury thus turned upon the meaning of the phrase "market value" of bonds. Chase, who construed it to mean the quotations of the New York stock market, was no doubt right in saying that sales of large amounts at these quotations were impossible. His critics in Congress, however, regarded his interpretation as a legal quibble which ought not to stand in the way of supplying the pressing needs of soldiers. "Everybody knows," said Mr. Gurley, impatiently, that the market value of bonds "is the price they will bring when placed upon the market; . . . . no far fetched construction of this sort should prevent their sale."[1]

Though the majority of congressmen probably shared Mr. Gurley's feeling that in his fear of exceeding the powers conferred upon him the secretary had been over-nice, the needs of the hour were too urgent to permit of further fencing. The great Ways and Means bill which had been reported from the committee while this dispute about the pay of soldiers was going on, contained a section which authorized the issue of $300,000,000 additional greenbacks "if required by the exigencies of the public service, for the payment of the army and navy and other creditors of the Government."[2] Debate upon it began January 12 with an elaborate speech by Mr. Spaulding.[3] The same day the joint resolution giving soldiers preference over all other government creditors which the House had passed December 22 was rejected by the Senate in favor of Chase's substitute.[4] Just before adjournment, still on this same day, the latter bill was referred to the Committee of Ways and Means in the House.[5] Though this committee felt that steps should be taken at once for the relief of the soldiers, they did not approve of Secretary Chase's proposals. The Ways and

[1] *Congressional Globe*, 37th Cong., 3d Sess. p. 343. *Cf.* pp. 389, 390, 927.
[2] *Ibid.*, p. 284. [3] *Ibid.*, p. 284-9. [4] Pp. 106, 107, above.
[5] *Congressional Globe*, 37th Cong., 3d Sess., p. 291.

Means bill which they had framed would grant abundant power to borrow money, but they knew that it could not be passed much before the end of the session. Consequently they determined to put the simplest of the proposals of the Ways and Means bill into a separate measure and ask for immediate action. With this view, on the 14th of January, Thaddeus Stevens introduced a "Joint Resolution to provide for the immediate payment of the Army and Navy of the United States." It was very brief, merely authorizing the issue of $50,000,000 additional greenbacks to be included in the issue provided for by the pending bill. On Lovejoy's motion the amount was doubled. Then without any discussion the resolution was passed.[1] The next day the Senate acted upon it with similar expedition,[2] and President Lincoln signed it on the 17th.[3] In notifying the House of his approval of the measure the president expressed his "sincere regret that it has been found necessary to authorize so large an additional issue of United States notes," and urged prompt enactment of Chase's plan for a national banking system.[4]

A third issue of greenbacks was thus determined upon with much less discussion than had been bestowed upon the first and second issues. The opening for it was made by Secretary Chase's peculiar interpretation of the loan sections of the first legal-tender act. Had he taken the "market value" of bonds to mean what Congress seems to have intended—the price which they would bring when sold on the market—it is probable that he could have negotiated a much larger amount of the five-twenties in the summer and autumn of 1862. Then the pay of the army would not have fallen into arrears and the occasion for the joint resolution of January 17 would not have presented itself.

1 *Congressional Globe*, 37th Cong., 3d Sess., p. 314.

2 *Ibid.*, p. 323.

3 12 *Statutes atLarge*, p. 822.

4 *Congressional Globe*, 37th Cong., 3d Sess., pp. 392, 393.

III. THE THIRD LEGAL-TENDER ACT

The greenbacks authorized by the joint resolution, however, formed but a third of the issues proposed by the Ways and Means bill reported by the committee. This bill authorized the secretary of the treasury to borrow \$900,000,000, intended partly to supply the wants of the current fiscal year and partly of the year that would begin July 1, 1863. To secure this sum the secretary might sell "upon the best terms he can obtain, not less than par," twenty-year bonds, bearing interest at 6 per cent., in coin. He might also issue \$300,000,000 of three-year treasury notes bearing coin interest at $5.47\frac{1}{2}$ per cent.; *i. e.*, a cent and a half per day on \$100. Further, "if required by the exigencies of the public service," he might issue \$300,000,000 of greenbacks. To prevent the avenues of circulation from being closed against government paper money by enlarged issues of bank notes, a tax of 2 per cent. per annum was proposed on the circulation of banks beyond certain limits, which varied from 25 per cent. of the capital in the case of institutions with a capital of over \$2,000,000 to 90 per cent. of the capital of banks with capitals of \$100,000 or less.[1]

Rather curiously, the discussion of this sweeping measure centered not in the question how best to borrow the \$900,000,000 needed, nor in the policy of issuing more legal-tender notes, but in the proposed tax on bank notes. Congressmen acquiesced with little dispute in the recommendations concerning the loans;[2] but they discussed at much length and with much warmth the alleged attack upon the banks. Of strenuous opposition to the increase of the irredeemable currency there was none. It was clearly enough seen that

[1] The text of the bill is given *Congressional Globe*, 37th Cong., 3d Sess., pp. 283, 284.

[2] See, *e. g.*, the speeches of Messrs. Spaulding, *ibid.*, p. 287; Morrill, p. 296; Sheffield, p. 367; Hooper, p. 384; Riddle, p. 383; Lovejoy, p. 345; Gurley, p. 342; Walker, p. 339.

the bill would cause further depreciation,[1] injure the government's credit,[2] increase the cost of the war, work injury to recipients of fixed wages—particularly soldiers—to savings bank depositors and all creditors, and that it would still further excite the "spirit of speculation."[3] But this recital of the ill effects which would follow the bill apparently had little influence. Even Amasa Walker—then serving his short term in the House—who saw these evils most clearly, could lightly waive them aside. "One thing is certain," said he, "we are in such an emergency at the present time that it is not worth while for us to be very particular."[4] He frankly admitted that he could see no alternative.[5] Similarly Justin S. Morrill, who had opposed the first and second legal-tender acts, felt constrained to vote for the bill because he knew of no better way of securing funds. "The patient has got accustomed to opiates," said he, "and the dose cannot now be withheld without peril."[6] Mr. Horton took the same stand. He had opposed the whole paper-money system, but now that the country was "launched . . . . on this current of paper money," there seemed to him to be no turning back.[7] While even these staunch opponents of irredeemable currency admitted the necessity of the bill, Mr. Spaulding and his associates proclaimed it as they had done in the case of the first and second issues. "I have an aversion," said Mr. Spaulding, "to any considerable further issue of legal tender notes, and can only consent to it as an imperative necessity. I think too large an issue will tend to inflate prices; but I do not see how it can be avoided."[8]

In the recognition of the ill effects of an irredeemable paper currency and the assertion of necessity the discussion

1 Senator Sherman, *ibid.*, p. 841.

2 Amasa Walker, *ibid.*, p. 339.

3 See remarks of Messrs. Walker, *loc. cit.;* Ward, *ibid.*, p. 337; and Pike, p. 347.

4 *Ibid.*, p. 392.

5 *Ibid.*, p. 339.

6 *Ibid.*, p. 294.

7 *Congressional Globe*, 37th Cong., 3d Sess., p. 387.

8 *Ibid.*, p. 289.

of the third legal-tender act was but a repetition of the two former debates. One new topic, however—whether or no the currency was "inflated"—attracted much attention. The apologists of the legal-tender system were anxious to minimize the evils incident to it, and especially to show that the government notes were not redundant and had not depreciated. Mr. Chase had set the example by attributing the premium on gold to the anxiety of timid investors, foreign and native, to sell American securities even at heavy sacrifice for coin which could be exported or hoarded. Speculators, he said, had made the most of this situation to effect a great rise of gold. That the high premium was "not due wholly, or even in greatest part, to the increase of the currency," he sought to show by estimates of the monetary circulation before and after suspension. According to his figures the circulation of the loyal states had increased between November 1, 1861, and November 1, 1862, but from $355,000,000 to $377,000,000. Nearly or quite all of this moderate gain of $22,000,000 he thought was required by the greater activity of business and the greater government transactions. That this was the case seemed to him sufficiently well attested by the fact that the prices of various staple products such as wheat, mess pork, corn, hay, beef, etc., had risen little if at all. Moreover, he showed that the fluctuations in the premium had not coincided with changes in the volume of the circulation. Finally, he argued, "if there be a considerable real depreciation of the circulation — which is by no means admitted —" it is due not to redundancy of greenbacks, but to the needless increase in the note and deposit currency of banks.[1]

Mr. Chase's arguments reappeared during the debate in a number of variations. One gentleman declared that a

[1] *Report of the Secretary of the Treasury*, December, 1862, pp. 12–15. *Cf.* Part II, chaps. ii, iii and iv, below, on the circulating medium, the premium on gold and the prices of commodities.

bushel of wheat sold for a gold dollar in Europe and a paper dollar in America, and that as the wheat had everywhere the same intrinsic value there could be in reality no such difference between the value of paper money and coin as the premium on gold indicated.[1] Another member propounded the doctrine that the rate of interest is an infallible test of the adequacy of the money supply. Since the rate of interest in the money market was high he refused to believe that the currency was unduly expanded.[2] Mr. Edwards declared that "a more fallacious idea was never put forth" than that "the difference between gold and the currency issued by the Government is the measure of depreciation." In his opinion the difference was due to the fact that gold was and greenbacks were not receivable at the customs houses. Gold had become "an article of merchandise." The supply of it was not equal to the demand, and in the scramble it had become "a monopoly in the hands of a few who hoard it because they know they can get a good price for it from the customer who is obliged to buy it."[3]

To refute such proofs that the currency was not redundant, Amasa Walker declared, on the authority of Calhoun, that the amount of currency required by the community was just one dollar for every twenty-five dollars of property. He estimated the property of the loyal states at $12,500,000,000. The proper amount of currency was therefore one-twenty-fifth of this sum, or $500,000,000. But there was in circulation some $850,000,000 of currency. That is, by his estimate, there was a redundancy of $350,000,000.[4]

1 Mr. Shellabarger, *Congressional Globe*, 37th Cong., 3d Sess., p. 407.

2 Mr. Watts, *ibid.*, p. 391.

3 *Ibid.*, p. 409.

4 *Ibid.*, p. 339. Mr. Walker included bank deposits in his estimate of the volume of the currency. Calhoun's statement of the theory is not quite so bold and dogmatic as Mr. Walker represented it. See *Works of John C. Calhoun* (New York, 1853), Vol. II, p. 347.

Replying to Walker, Mr. Riddle raised no objection to the method of his argument, but declared that an important element had been omitted in the calculation—the government required much more currency in time of war than in time of peace. "So far from there being a redundancy of the currency," he concluded, "I believe there is a deficiency."[1] The commonest rejoinder to the statement of redundancy, however, was the assertion that prices of commodities had not risen materially.[2]

But the matter was carried farther. Not satisfied with denying the depreciation of the paper currency, some members asserted that further inflation was necessary to facilitate borrowing. This argument, too, seems to have been derived from a passage in Mr. Chase's report:

> The government can resort to borrowing only when the issue [of United States notes] has become sufficiently large to warrant a just expectation that loans of the notes can be had from those who hold or can obtain them at rates not less advantageous than those of coin loans before suspension.[3]

This language can hardly mean anything else than that the government should continue to issue its notes until their value had been so depressed that holders would be ready to exchange $100 of currency for an annual gold payment of $6. Congressmen at least took this view. Mr. Horton declared a further issue of currency necessary "in order to fund a large amount of debt."[4] Similarly Mr. Hooper opposed selling bonds below par and preferred to adhere to the policy of previous legislation, which, according to him, had been "to issue legal-tender notes in sufficient amount . . . . to float . . . . bonds and keep them at par."[5] Mr. Spaulding

[1] *Congressional Globe*, 37th Cong., 3d Sess., p. 383.

[2] *Cf. ibid.*, remarks of Messrs. Hooper, p. 386, Watts, p. 391, Riddle, p. 383, and Walker's rather feeble reply, p. 407.

[3] *Report of the Secretary of the Treasury*, December, 1862, p. 14.

[4] *Congressional Globe*, 37th Cong., 3d Sess., p. 387.

[5] *Ibid.*, p. 412.

urged the same argument. The treasury found difficulty, said he, in borrowing currency to pay for the necessary loans; consequently more currency should be issued.[1] Finally, Mr. Watts declared that he would issue legal-tender notes, "until the rate of interest should come down to such a reasonable notch that the government could afford to go with some prospect of ultimately paying the amount of its indebtedness and interest."[2]

Such talk marks the extreme length to which the idea that government should not sell bonds below par was carried. When the treasury was unable to get funds by selling bonds at par there were three possible courses: (1) to make the securities offered more attractive to investors by raising the rate of interest or lengthening the time for which they would run; (2) to make no change in the terms of the bonds but to accept the market price for them; (3) to decrease the value of the currency to a point where $100 in greenbacks was worth less in the minds of the public than the promise of a gold income of $6 for a term of years and final repayment in coin. The third course necessarily involved all the disorders caused by a depreciation of the money that served the community in its economic relations as a standard of value. But the demand for fresh issues to facilitate borrowing was virtually a recommendation of this third course.

One amendment to the bill, destined in later years to be the subject of much criticism was made during the discussion in committee of the whole. Despite Secretary Chase's urgent recommendation, the "conversion" clause, permitting holders of greenbacks to exchange them at par for 6 per cent. bonds was retained in the bill as reported by the Committee of Ways and Means.[3] Near the end of the debate, however, Mr. Horton moved to strike out this clause. "It simply leaves the option in the hands of the secretary of the

[1] *Ibid.*, p. 287. [2] *Ibid.*, p. 391. [3] Sec. 3, *Ibid.*, p. 284.

treasury," he said in explaining the proposed amendment, "instead of the holders of the currency."[1] Very little attention was paid to the change. Shellabarger and Stevens showed a disposition to question its wisdom, but it was accepted in committee of the whole without a division,[2] and when Shellabarger called for the yeas and nays upon it in the House they were not ordered.[3]

Three substitutes were proposed for the bill brought in by the Committee of Ways and Means. Thaddeus Stevens proposed one, of which the characteristic features were the issue of $300,000,000 in United States notes, payment of interest on bonds in "lawful money" instead of in coin, and repeal of the legislation authorizing the acceptance of deposit loans.[4] When this substitute was rejected by a vote of 39 to 66,[5] Mr. Stevens imperturbably proposed a second.[6] As the House was disposed to insist upon payment of interest in coin—a measure which seemed to Mr. Stevens to destroy "the simplicity and harmony" of the paper-money system[7]—he accepted this principle and proposed that any part of $900,000,000 might be borrowed on treasury notes bearing 3.65 per cent. interest in coin, a legal tender to the same extent as greenbacks and redeemable at the pleasure of the government.[8] This proposition was defeated by a yea and nay vote of 37 to 91.[9] The third substitute, introduced by Mr. Hooper, reproduced with a few modifications of wording a bill submitted by Secretary Chase at their request to the Committee of Ways and Means, but not accepted by them.[10] As Chase observed in his letter to the committee, "the provision in respect to loans is very general."[11] In order to secure $900,000,000 the bill authorized the secretary of the treasury to issue 6 per cent. bonds running twenty years or

1 *Congressional Globe*, 37th Cong., 3d Sess., p. 455. 2 *Ibid.*, *loc. cit.*
3 *Ibid.*, p. 522. 4 For text see *ibid.*, p. 284. 5 *Ibid.*, p. 487.
6 *Ibid.*, p. 490. 7 *Ibid.*, p. 145. 8 For text see *ibid.*, p. 520.
9 *Ibid.*, p. 522. 10 See Hooper's explanations, *ibid.*, p. 485. 11 *Ibid.*, *loc. cit.*

less, or 6 per cent. treasury notes running not more than three years, or United States notes, without specifying any limit to the amount of these various securities to be issued beyond the provision that the aggregate of bonds, treasury notes, and United States notes should not exceed $900,000,000.[1] This bill met a fate similar to Stevens's by an equally emphatic majority — 32 to 67.[2] After these substitutes had been rejected the bill of the committee was passed without a division and sent to the Senate.[3]

In the Senate the finance committee proposed several amendments, of which the most important was the reduction of the issue of greenbacks from $300,000,000 to $150,000,000.[4] Why the House Committee of Ways and Means had set the issue at $300,000,000 is not clear. Mr. Hooper, after a conference with Chase, told the House that the secretary seemed not to consider so large an issue necessary.[5] Yet the amount was not reduced, nor was there any discussion of the subject. However, no objection was raised to the Senate's amendment reducing the issue by one-half. Apparently, the House was proceeding on Amasa Walker's maxim that in such an emergency it was "not worth while . . . . to be very particular."[6] Had it not been for the action of Senator Fessenden's committee the amount of greenbacks authorized during the war would have been $600,000,000 instead of $450,000,000.

The debate in the Senate was brief, and even more largely devoted to the clause taxing bank notes than had been the case in the House. The final vote was yeas 32, nays 4.[7] March 3, 1863, the bill received President Lincoln's approval.

This law authorized the secretary of the treasury to bor-

[1] For the text see *ibid.*, p. 484.

[2] *Ibid.*, p. 487.

[3] *Ibid.*, p. 522.

[4] *Ibid.*, p. 927.

[5] *Ibid.*, p. 366.

[6] *Ibid.*, p. 392.

[7] *Ibid.*, p. 945.

row on the credit of the United States $900,000,000. He could sell 6 per cent. coin-interest, ten-forty bonds on such terms as he might "deem most advisable." Of this sum $400,000,000 might be in three-year treasury notes bearing not more than 6 per cent. interest payable in "lawful money." These notes were to be a legal tender for their face value, excluding interest, of denominations not less than ten dollars and could be sold "on the best terms that can be obtained," or paid to creditors willing to accept them at par. Further, the secretary was empowered "if required by the exigencies of the public service, for the payment of the army and navy, and other creditors of the government, to issue . . . . the sum of $150,000,000 of United States notes, including the amount of such notes [$100,000,000] heretofore authorized by the joint resolution approved January 17, 1863." The clauses in the first and second legal-tender acts restricting "the negotiation of bonds to market value" were repealed; and holders of United States notes who desired to "convert" them into five-twenty bonds were required to present their notes for this purpose on or before July 1, 1863, after which date the right to exchange should "cease and determine." Finally, to take the place of the unsatisfactory postal currency, the secretary was authorized to issue notes for fractional parts of a dollar to an amount not exceeding $50,000,000, and a tax of 5 per cent. each half-year was imposed on fractional notes issued by any bank, corporation or individual.[1]

[1] 12 *Statutes at Large*, p. 709.

CHAPTER V

HOW FURTHER ISSUES OF GREENBACKS WERE AVOIDED IN 1864 AND 1865

I. *The Congressional Pledge to Issue no More U. S. Notes:*
Avoidance of Greenback Issues in Latter Part of War — Due Chiefly to Increase of Taxation — Success of 5–20 Loan in 1863 — Finance Report of 1863 — Greenbacks in First Session of Thirty-eighth Congress.

II. *The Financial Difficulties of 1864:*
Chase's Difficulties from January to June — Change of Secretaries — Financial Straits During the Summer — Fessenden's Report in December — Improvement in the Situation.

III. *Secretary McCulloch and the Alley Resolution:*
7–30 Loan of 1865 — Finance Report — The Alley Resolution.

IV. *Recapitulation:*
Government Receipts of 1861–66 — Decreasing Relative Importance of Loans — Financial Rôle of the Greenbacks.

I. THE CONGRESSIONAL PLEDGE TO ISSUE NO MORE U. S. NOTES

Since no further issues of greenbacks were authorized after March 3, 1863, it may seem that discussion of the war legislation regarding them should end with the last chapter. But in passing upon the paper-money policy it is quite as necessary to understand how the issue of more greenbacks was avoided in the latter half of the war as it is to discover why such issues were made in 1862 and 1863. For this purpose a brief review of the treasury policy in 1864 and 1865 must be added.

Of course, the demands made upon the treasury in these later years were much heavier than they had been during the first half of the war. The expenditures other than payments of principal of the debt rose from \$470,000,000 in 1862 and \$719,000,000 in 1863 to \$865,000,000 in 1864 and

$1,297,000,000 in 1865.[1] If recourse to United States notes was avoided in the second half of the struggle despite these enormously increased disbursements, the chief reason must be found in the more efficient revenue system. The slowness of the secretary to recommend and of Congress to enact heavy taxes in the earlier stages of the war has been commented upon.[2] There was no great hesitation in raising the customs dues on imported articles, but the results from the fiscal point of view were not of great moment, because Congress seemed more inclined to strengthen the protective than the revenue features of the tariff. The direct tax imposed by the summer session in 1861 was of slight avail. In no year during the war did the receipts from this source reach $2,000,000. Internal taxes were not levied until July 1, 1862, when a very elaborate system was created, according to which almost everything that seemed to Congress susceptible of yielding a revenue was subjected to a duty.[3] This system was amended and extended by the acts of June 30, 1864, and March 3, 1865.[4] At first the results of this system did not meet expectations. Chase estimated for the first year of its operation that the receipts would be $85,500,000, and they proved to be but $37,500,000 — less than half the anticipated sum.[5] But as the tax officials became more familiar with their duties and the imperfections shown by experience to exist in the first legislation were remedied, receipts increased very rapidly. In 1864 they were $110,000,000, in 1865 $209,-000,000, and in 1866 $309,000,000.

Such large receipts from taxation not only provided an increasing proportion of the sums needed to meet expenditures, but also improved the credit of the government as a

[1] For these and similar figures given below see the table of receipts and expenditures for past years published in every *Report of the Secretary of the Treasury*.

[2] *Cf.* Part I, chap. i, p. 18, and chap. ii, p. 72, above.

[3] 12 *Statutes at Large*, p. 432.

[4] 13 *Statutes at Large*, pp. 223, 469.

[5] *Report of the Secretary of the Treasury*, December, 1863, p. 3.

borrower. At the same time more efficient methods of negotiating loans were devised. The happiest of Mr. Chase's financial expedients was the arrangement into which he entered with Jay Cooke in October, 1862, for selling the five-twenties authorized by the first legal-tender act. The system of agencies which Mr. Cooke organized was so successful in obtaining subscriptions that the fiscal year, 1863, which had opened badly, ended most fortunately, despite the untoward military events of May and June, when Grant seemed to the public to be making little advance against Vicksburg, and Lee and Bragg were invading the North. The accumulation of unpaid requisitions that was already a cause of solicitude when Chase sent his report to Congress in December, 1862, had mounted by the close of the session to $72,000,000. But when the third legal-tender act, with its ample provision for loans and repeal of the funding clause, had become a law, the lagging sale of bonds became so rapid that "within two months after the adjournment of Congress the whole mass of suspended requisitions had been satisfied, all current demands promptly met, and full provision made for the pay of the army and navy." At the end of the fiscal year there was a balance of over $5,000,000 in the treasury.[1]

Encouraged by Cooke's continued success, Mr. Chase in his report of 1863 took ground against further issues of greenbacks. "The limit prescribed by law to the issue of United States notes," said he, "has been reached, and the Secretary thinks it clearly inexpedient to increase the amount."[2] Instead, he recommended such modifications of the internal revenue system as should increase the receipts to $150,000,000.[3] If this recommendation should be followed he entertained "little doubt of being able to obtain

[1] *Report of the Secretary of the Treasury*, December, 1863, p. 2. On the arrangement with Jay Cooke see *H. R. Executive Document No. 66*, 37th Cong., 1st Sess.

[2] *Report of the Secretary of the Treasury*, December, 1863, p. 17. [3] *Ibid.*, p. 10.

whatever funds will be needed, through loans, at reasonable rates of interest, for bonds or treasury notes."[1]

Apparently Congress concurred in the secretary's belief that further issues of United States notes would be detrimental. Justin S. Morrill seems to have expressed the general feeling:

> To force the Treasury to issue legal tender notes in any way beyond the present limits — though the wages of labor, though the pay of salaried men and of the soldier, should be increased — would result in disappointment and disaster. . . . . Let us have taxes; let us have loans; something, at all events, which will reduce the amount of legal tenders now outstanding.[2]

Not only did the thirty-eighth Congress decline to increase the issues of United States notes, but it inserted in the "act to provide ways and means for the support of the Government," approved June 30, 1864, the following proviso:

> . . . . nor shall the total amount of United States notes, issued or to be issued, ever exceed four hundred millions of dollars, and such additional sum, not exceeding fifty millions of dollars, as may be temporarily required for the redemption of temporary loan [*sic*].[3]

This important clause, pledging that no more United States notes would be issued, attracted slight attention. But one feature of the debate is of interest. Thaddeus Stevens, consistent to the last, made "one more effort to save the national credit," as he put it, by proposing to pay the interest on the new loans in paper money instead of in coin.[4] Again he failed.

II. FINANCIAL DIFFICULTIES OF 1864

The pledge thus given by the first session of the thirty-eighth Congress was kept despite the financial embarrassments of the summer of 1864, and the enormous expen-

[1] *Report of the Secretary of the Treasury*, December, 1863, p. 18.

[2] *Congressional Globe*, 38th Cong., 1st Sess., p. 1716.

[3] Sec. 2, 13 *Statutes at Large*, p. 219.

[4] *Congressional Globe*, 38th Cong., 1st Sess., pp. 3212 ff.

ditures of 1865. During the year ending June 30, 1864, the expenditures exceeded Mr. Chase's anticipations by $116,-000,000.[1] Though there was a similar excess of the actual over the estimated receipts from taxation and miscellaneous sources of $104,000,000,[2] it was still necessary to borrow immense sums. Over $320,000,000 of the five-twenties were sold by Mr. Cooke and the treasury agencies, but the subscription books closed January 21. In arranging for a new loan Mr. Chase made three changes. He offered bonds that would run twice the time of the five-twenties, but he reduced the rate of interest from 6 to 5 per cent., and instead of employing Jay Cooke again as general agent he tried to sell the bonds through national banks and other agencies under supervision of the treasury department.[3] In consequence of these changes and the slow progress of the northern armies in the winter and spring of 1864 the "ten-forty loan," as it was called, was as marked a failure as the five-twenty loan had been a success. By the end of the fiscal year only $73,-000,000 had been sold.[4]

This failure left a deficit which Mr. Chase could find no better way of filling than by issuing more legal-tender notes. The new issues, however, were of a type different from the greenbacks in that they ran for definite terms and bore interest which it was hoped would lead holders to retain them as an investment instead of putting them into circulation as money. During the half year January to June, 1864, issues of such interest-bearing legal-tender notes in

[1] Compare *Reports of the Secretary of the Treasury*, December, 1863, p. 5, and 1864, p. 6.

[2] *Ibid.*, 1864, *loc. cit.*

[3] See Chase's letter to Fessenden, Schuckers, *op. cit.*, p. 416. In explaining this change of plan Chase wrote: "I have not forgotten the calumnies for which my employment of a general agent was made the occasion, and I confess it was principally with a view of avoiding these calumnies that I abandoned the general agency system."

[4] Bayley, *op. cit.*, p. 164.

excess of redemptions were made to the amount of $163,-000,000.[1] Despite all Chase's efforts to obtain funds, however, demands upon the treasury piled up more rapidly than they could be met. Though on the 1st of July there was a nominal balance of $19,000,000 on hand, there were also unpaid requisitions that on the 5th amounted to $72,000,000.[2]

At this uneasy juncture a change of secretaries occurred. In May, John J. Cisco, the experienced chief of the New York subtreasury, had sent in his resignation to take effect June 30. Chase and Senator Morgan, of New York, came into conflict over the appointment of his successor. Though the cause of disagreement was finally removed by Cisco's consenting to remain in office, Chase could not resist the temptation to impress upon the president the necessity of deferring to the wishes of his secretary of the treasury by sending him a note of resignation. Three or four times before when Mr. Chase had tried similar tactics to carry a point, Mr. Lincoln had begged him to reconsider the step. Consequently, Chase was disagreeably surprised when, on June 30, he received a note from the president accepting his resignation.[3] After the vacant position had been refused by Governor David Tod, of Ohio, W. P. Fessenden, of Maine, chairman of the Senate finance committee, reluctantly consented to assume its responsibilities.

The new secretary found himself in a very difficult position. Beside the $72,000,000 of unpaid requisitions, there were outstanding $162,000,000 of certificates of indebtedness. Receipts from customs were hardly more than enough to pay interest on the debt, and from internal revenue duties

[1] There were three varieties of these issues: the one-year and the two-year notes of 1863, and the compound interest notes. See BAYLEY, *op. cit.*, pp. 161–3; *Report of the Secretary of the Treasury*, December, 1864, p. 3. On their circulation as money see Part II, chap. ii, sec. vi, below.

[2] *Report of the Secretary of the Treasury*, December, 1864, p. 19.

[3] See the letters published in WARDEN, *op. cit.*, p. 614; *cf.* SCHUCKERS, *op. cit.*, chap. xlv, and pp. 505–10; HART, *op. cit.*, pp. 315–18.

not more than $750,000 a day was expected. Meanwhile the daily expenses were estimated at not less than $2,250,000.[1] Nor was the prospect bright for securing funds by borrowing. Three days before Fessenden came into office a loan on seventeen year 6 per cent. bonds offered by Chase at 104 or above was withdrawn from lack of takers.[2] A promising attempt to secure $50,000,000 from the banks of New York, Boston, and Philadelphia, was blocked by the sub-treasury law which was held to prevent the secretary from drawing upon any but national banks.[3] Fessenden then decided upon a popular subscription for seven-thirty notes authorized by the act of June 30, 1864. Although he incurred considerable expense in advertising this loan the sums realized were not large.[4] The unpaid requisitions now amounted to more than $130,000,000, and the secretary "resolved to use all the means at his command to pay so much, at least, as was due to . . . . soldiers, who were suffering from the long delay in satisfying their just claims." For this purpose he was compelled, much against his will, to issue over $80,000,000 of legal-tender compound-interest notes. He also used over $20,000,000 of seven-thirties in paying the army, and raised $33,000,000 more on the seventeen-year bonds which Mr. Chase had been unable to sell.[5] But all these shifts did not bring in sufficient means, and the quarter ending with September showed a deficit of $130,000,000.[6]

Still, when Secretary Fessenden prepared his report to Congress he did not recommend an increase in the issues of greenbacks. To push the circulation of government notes

[1] *Report of the Secretary of the Treasury*, December, 1864, pp. 19, 20.

[2] See Chase's letter to Fessenden, Schuckers, *op. cit.*, p. 415; *cf. Hunt's Merchants' Magazine*, Vol. LI, pp. 42 and 129.

[3] *Report of the Secretary of the Treasury*, December, 1864, p. 20; *Hunt's Merchants' Magazine*, Vol. LI, pp. 129, 130.

[4] *Report* cited in preceding note, p. 20. [5] *Ibid.*, p. 21. [6] *Ibid.*, p. 39.

"far, if at all, beyond its present limit," he said, "could only be justified by absolute necessity."[1] The operations of the treasury during his brief incumbency had satisfied him "not only of the ability of the people to furnish, at a short notice, such sums as may be required, but [also] of the entire confidence felt in the national securities."[2] What sort of loans should be offered he left for Congress to decide, but he felt that as an aid in negotiations the secretary should be granted a discretionary power to increase the currency.[3] For the rest, he recommended that the internal revenue duties be increased and extended to a point where they would yield $300,000,000 a year.[4]

Even before this report was sent to Congress the financial situation seems to have improved. This improvement was doubtless due in large measure to the successes of the Union armies that began to hold out an increasingly definite promise of peace. Under such circumstances borrowing became easier. During the quarter October to December Fessenden secured $20,000,000 from compound interest notes, $36,000,000 from ten-forties, $54,000,000 from seven-thirties, and $77,000,000 from five-twenties. In the next three months he raised $56,000,000 on ten-forties and $185,000,000 on seven-thirties. Meanwhile the redemptions of greenbacks were slightly, and of certificates of indebtedness largely, in excess of issues, and while considerable amounts of compound interest notes were paid out they were more than offset by redemptions of one and two-year notes of 1863.[5]

III. SECRETARY McCULLOCH AND THE ALLEY RESOLUTION

When President Lincoln entered upon his second term Fessenden was allowed to lay down his uncongenial burden. His successor, Hugh McCulloch, was strongly recommended

1 *Report of the Secretary of the Treasury*, December, 1864, p. 17.

2 *Ibid.*, p. 21.

3 *Ibid.*, p. 22.

4 *Ibid.*, p. 14.

5 *Cf.* BAYLEY, *op. cit.*, pp. 157–63.

by his success as president of the Bank of the State of Indiana and his services as the first comptroller of the treasury in organizing the national banking system.

Though the war was obviously nearing its end, the task of the new secretary was by no means easy. The armies could not well be disbanded until the government was provided with funds sufficient to meet all arrears of pay, including bounties and cost of transportation. To secure means, Mr. McCulloch arranged for a popular subscription for seven-thirty notes, and employed Jay Cooke as general agent. As before, Cooke was eminently successful. By the end of July $530,000,000 of seven-thirties had been sold, and McCulloch had, in his own words, "the unexpected satisfaction of being able, with the receipts from customs and internal revenue and a small inerease of the temporary loan, to meet all the requisitions upon the treasury."[1]

The war over, McCulloch set himself to reducing the government finances to more manageable shape. In his annual report for 1865 he estimated that at the close of the current fiscal year the national debt would amount to about $3,000,000,000.[2] To reduce this sum, the secretary proposed that $200,000,000 be spent each year in payment of interest and principal.[3] Such payments, he showed, would extinguish the debt, if funded at 5½ per cent., in thirty-two years.[4] But he laid chief stress upon the desirability of reducing the volume of currency as a preliminary to resuming specie payments at an early date.

> The present legal-tender acts [he said] were war measures, and while the repeal of those provisions which made the United States notes lawful money is not now recommended, the Secretary is of the opinion that they ought not to remain in force one day longer than shall be necessary to enable the people to prepare for a return to the constitutional currency.[5]

[1] *Report of the Secretary of the Treasury*, December, 1865, pp. 36, 37.
[2] *Ibid.*, p. 22. [3] *Ibid.*, p. 25. [4] *Ibid.*, p. 23. [5] *Ibid.*, p. 4.

He therefore recommended that he be empowered to sell bonds "for the purpose of retiring not only compound interest notes, but [also] the United States notes."[1]

That Congress shared the secretary's desire to resume specie payments speedily seemed to be sufficiently shown by the prompt action of the House of Representatives upon a resolution introduced by John B. Alley, of Massachusetts. It ran as follows:

> *Resolved*, That this House cordially concurs in the views of the Secretary of the Treasury in relation to the necessity of a contraction of the currency with a view to as early a resumption of specie payments as the business interests of the country will permit; and we hereby pledge co-operative action to this end as speedily as practicable.

This resolution was adopted without debate on December 18, by a vote of 144 to 6.[2] The story of how the fulfilment of the promise of resumption was delayed for thirteen years does not belong to the war history of the greenbacks.

IV. RECAPITULATION

The rôle played by the greenbacks as a financial resource at different stages of the Civil War can best be shown by a tabular recapitulation of the receipts of the treasury from different sources during the fiscal years 1861–66.

The "net ordinary receipts" shown in this table are taken from the reports of the secretary of the treasury. They include, besides import duties and internal-revenue taxes, proceeds of sales of public lands and all miscellaneous items. The notable fact concerning them is the rapid increase from year to year—an increase for which the internal-revenue system deserves the lion's share of credit. From a tenth in 1862, the proportion of ordinary to total receipts rose

[1] *Report of the Secretary of the Treasury*, December, 1865, p. 14.

[2] Thirty-two members did not vote.—*Congressional Globe*, 39th Cong., 1st Sess., p. 75.

TABLE II

RECEIPTS OF THE FEDERAL GOVERNMENT FOR THE FISCAL YEARS 1861–66

	1861		1862		1863		1864		1865		1866	
	Millions of Doll'rs	Per cent.	Millions of Doll'rs	Per cent.	Millions of Doll'rs	Per cent.	Millions of Doll'rs	Per cent.	Millions of Doll'rs	Per cent.	Millions of Doll'rs	Per cent.
Total net receipts	64.5	100.0	484.4	100.0	708.2	100.0	941.1	100.0	1,197.0	100.0	626.1	100.0
Net ordinary receipts	41.5	64.3	51.9	10.7	112.1	15.8	243.4	25.9	322.0	26.9	519.9	83.0
Customs	39.6	61.4	49.1	10.1	69.1	9.8	102.3	10.9	84.9	7.1	179.0	28.6
Internal revenue	....	....	....	....	37.6	5.3	109.7	11.7	209.5	17.5	309.2	49.4
Net receipts from loans	23.0	35.7	432.5	89.3	596.1	84.2	697.7	74.1	875.0	73.1	106.2	17.0
Bonds	23.3	36.2	59.6	12.3	172.5	24.4	468.2	49.7	344.2	28.8	127.3	20.4
Short-time interest-bearing obligations	−.3	−.5	214.4	44.3	170.4	24.1	185.9	19.8	528.1	44.1	7.7	1.2
Non-interest-bearing obligations	....	....	158.5	32.7	253.2	35.7	43.6	4.6	2.7	.2	−28.8	−4.6
[United States notes]	....	....	[98.6]	[20.4]	[289.2]	[40.8]	[43.9]	[4.7]	[−.2]	[−.2]	[−30.4]	[−4.9]

to a quarter in 1864, and it would have been considerably instead of slightly larger in 1865 had not customs duties fallen off so largely in consequence of the tariff act of June 30, 1864, which discouraged legal importations and stimulated smuggling.[1]

By "net receipts from loans" is meant the receipts minus sums employed in paying principal of the public debt. These receipts are divided into three classes, according to the kind of security upon which money was borrowed. Each class is charged with all redemptions of securities falling within it and credited with all new issues, including premiums realized on sales.[2] When the redemptions exceed the issues the fact is indicated by placing a minus sign before the figures.

Two matters of interest are brought out by the exhibit. The first is the correlative of the point already noticed; as the revenue system became more efficient, a smaller proportion of the means necessary to carry on the war had to be borrowed. From nine-tenths in 1862 the proportion fell to three-quarters in 1864 and 1865. The second matter concerns the method of borrowing. At first reliance was placed rather on issues of circulating currency than on sales of bonds; but with increasing experience the secretaries used bonds and interest-bearing treasury notes more and greenbacks less. To make this clearer a supplementary table is added giving the proportions of the net receipts from loans obtained from the three classes of securities.

From this table it appears that the greenbacks were not an important financial resource after June, 1863. In the fiscal year, 1862, more than a fifth, and in 1863 nearly half of the

[1] *Cf. Report of the Secretary of the Treasury*, December, 1864, pp. 13, 26.

[2] Issues and redemptions of the principal of the debt are compiled from BAYLEY, *op. cit.* Premiums are as given by DE KNIGHT, *History of the Currency of the Country and of the Loans of the United States*, *Treasury Department Document No. 1943*, pp. 121, 122.

TABLE III

PROPORTION OF THE NET RECEIPTS FROM LOANS DERIVED FROM BONDS, SHORT-TIME INTEREST-BEARING OBLIGATIONS, AND FROM NON-INTEREST BEARING OBLIGATIONS FOR THE FISCAL YEARS 1861–66

	1861	1862	1863	1864	1865	1866
Net receipts from loans	100%	100%	100%	100%	100%	100%
Bonds	101.3	13.8	28.9	67.1	39.3	119.9
Short-time interest-bearing obligations	−1.3	49.6	28.6	26.7	60.4	7.2
Non-interest-bearing obligations	......	36.6	42.5	6.2	.3	−27.1
[United States notes]	[....]	[22.8]	[48.5]	[6.3]	[−.2]	[−28.6]

loans were represented by issues of United States notes, but in 1864 the proportion fell to a sixteenth, and thereafter the redemptions were greater than the issues. This statement, however, does not by any means show the real financial effect of the greenback policy. More important than the nominal amount of the issues was the influence of the paper money upon the price of supplies bought by the government. But this is a large subject that must be reserved for a future chapter.[1]

[1] See Part II, chap. x, below.